60

THEORY & PRACTICE OF CO-OPERATION IN INDIA AND ABROAD

CP 24
P-123

VOL. III

OFFICE OF THE PRINCIPAL, RURAL EXTENSION TRAINING CENTRE
2? DEC 1960
T. KALLUPATTI
CP 24

Prof. K. R. KULKARNI, M.A., F.R. Econ. S. (Lond).

Coop: 22

1958

COOP18
1045
2(E)

Co-operators' Book Depot
9, BAKEHOUSE LANE, FORT, BOMBAY.

This is the third volume of Prof. Kulkarni's "Theory and Practice of Co-operation in India and Abroad" which was advertised to be published some time ago. Owing to his preoccupations, the author could not unfortunately bring it out as early as was expected. In this volume Prof. Kulkarni has made an attempt to deal with the genesis and growth of the Co-operative Movement in India and to trace its development right up to the current year. In the broad and detailed survey of Co-operation which has been attempted, there is hardly any aspect of it which has escaped his attention, but the Non-credit forms of Co-operation are left to be dealt with by him in the last and concluding volume of this series. Planned as it is on an ambitious scale, this volume deals exhaustively with some of the current problems of Indian Co-operation, and as such, it will serve as a guide and a valuable source of information to all serious students of Co-operation and field-workers. The treatment of the subject-matter is, as usual, clear and concise and problems are discussed in an objective or detached manner. It is hoped that this publication will also prove as useful and instructive as those of its predecessors in this series and would be welcomed by those for whom it is designed.

Price Rs. 22·50

Sh. 45/-

THEORY & PRACTICE OF CO-OPERATION

IN

INDIA AND ABROAD

VOL. III

By

Prof. K. R. KULKARNI

M. A., F. R. Econ. S. [Lond.]

Ex-Financial Adviser, Co-operative Department, Bombay State and sometime Offg Principal and Senior Professor of Agricultural Marketing, All-India Co-operative Training College, Poona.

With a Foreword

by

Shri V. L. Mehta

Chairman, Bombay State,
Co-operative Union, Bombay.

Co-operators' Book Depot

9, BAKEHOUSE LANE, FORT, BOMBAY.

By the same Author

Agricultural Marketing In India

All rights reserved by the Publishers.

First Published in Oct. 1958.

Printers: M. H. Patwardhan, at the Sangam Press Private Ltd., 383 Narayan, Poona 2; and Published by V. V. Bapat for the Co-operators' Book Depot, 9 Bakehouse Lane, Fort, Bombay 1.

PREFACE

Since the last 3 years the demand for this volume has been growing in intensity. For several reasons, however, I could not get enough time to undertake this work for which I must apologise to my readers. In the last few years significant developments have taken place in the field of Indian Co-operation which is expected to play a dynamic role in the economic and social regeneration of masses of this country. Towards this end the Rural Credit Survey Committee has emphatically recommended State participation and State partnership in co-operative enterprises and this recommendation has been implemented by Governments. A book dealing with Indian Co-operation must take note of these significant developments and trends of co-operative thought and I have tried my best to deal with these in the book at appropriate places. I have also treated at some length a few of the burning problems that face the co-operative movement of to-day in India. This book also as in the case of its predecessors (Vol. I and II) is addressed to students who are undergoing training in co-operation not only in the various co-operative educational institutions set up by the Reserve Bank of India but also to University students as well. I am, however, conscious that it has not been possible to cover fully the syllabus prescribed for the G.D.C. & A. Examination held in the Bombay State but I hope to take up writing a supplementary volume as soon as time permits. In the preparation of this volume also I have drawn upon various sources particularly the publications of the Agricultural Credit Department of the Reserve Bank of India as the bibliography attached at the end would indicate. I take this opportunity, therefore, to acknowledge the deep debt of gratitude I owe to numerous authors of books and writers of reports and articles from whose writings and works I have drawn the material. I must also thank Shri J. C. Ryan, M.A., I.A.S.(Retd.), Chief Officer, Agricultural Credit Department, Reserve Bank of India, Bombay, for the constant help I have been receiving from him. In presenting the material I have tried my best to make the subject

matter as simple, accurate and useful as possible. It is hoped that the book will prove of great benefit not only to students but also to workers in the field in which event I shall feel that my labours are amply rewarded. Shri V. L. Mehta, Chairman Bombay State Co-operative Union has laid me under a deep debt of gratitude by contributing a Foreword despite urgent calls on his time. Finally I must thank the Sangam Press Private Ltd., Poona, for the painstaking manner in which the work was executed despite certain handicaps.

All India Co-operative Training College, Poona-1.

AUTHOR.

FOREWORD

It is three years since the second volume of the *Theory and Practice of Co-operation in India and Abroad* by Prof. K. R. Kulkarni was published. The first volume of the series dealt with the theory and principles of the movement and the second with its history and growth in other countries. The third volume has been planned on a more ambitious scale. An attempt has been made to deal with the genesis and early growth of the co-operative movement and to trace its development right up to the current year. Even then, it has not been possible for Prof. Kulkarni to cover the entire ground and there is no reference to non-agricultural co-operative societies and their problems. It appears to be Prof. Kulkarni's intention to cover this branch of the movement in the fourth and concluding volume of this valuable series.

There is hardly any aspect of the field covered which has escaped his attention in this broad and yet detailed survey of Prof. Kulkarni's. While the structure of agricultural credit remains the same, by and large, as it was when the movement was formally ushered in with the enactment of Act X of 1904, one distinct change has taken place in several States in India, namely, the abandonment of the principle of unlimited liability as the basis for rural credit organization. In the pages that follow we can get an idea of how gradually this change in outlook has come about. Although it is a merit of Prof. Kulkarni's approach that he tries to avoid being polemical, it is possible for us to appreciate whether this change or similar modifications in the structure that have occurred in recent years have taken us away from what are still recognized as the fundamental principles of co-operation all over the world.

Even more than when the earlier volumes were published, the co-operative movement has become an integral and essential feature of our programme of rural economic development which is the main theme of the present volume in Prof. Kul-

karni's series of publications. Hence it is desirable that not only the worker in the co-operative movement but the administrator and the citizen interested in public affairs should get acquainted with what part agricultural co-operation does and can play in the re-ordering of our rural economy. The size of the publication need not frighten either of these groups of public workers, for they can treat it as a book of reference for consultation on topics in which they happen to be particularly interested. But for serious students of co-operation as those in charge of our growing number of co-operative educational institutions, the volume will provide a mine of information as well as a guide for instruction. Sources of knowledge lie scattered over a number of publications, official and non-official. The principal service that Prof. Kulkarni has rendered is to bring together all valuable material in one volume and to approach matters of controversy in a non-dogmatic and dispassionate spirit.

Poona-1:
28th August, 1958

VAIKUNTH L. MEHTA.

SYNOPSIS OF CONTENTS

Chapter	Contents	Pages
I	Genesis and Development of the Co-operative Movement in India — What is Co-operation—Early debt relief measures——Beginning of the statutory forms of co-operation in India—The Co-operative Societies Act of 1904—The Co-operative Societies Act II of 1912—The effect of Act II of 1912—Imperial Committee on Co-operation in India otherwise known as Maclagan Committee—Recommendations—Primary Societies—Non-credit Societies—Unions—Central Financing Agencies—Effect of the Recommendations of the Committee—The Bombay Act VII of 1925—The Madras Co-operative Societies Act VI of 1932—The Madras Land Mortgage Banks Act X of 1934—The Bihar and Orissa Act VI of 1935—The Bengal Co-operative Societies Act XXI of 1940—The Hyderabad Co-operative Credit Societies Act II of 1323 (Fasli)—The Mysore Co-operative Societies Act VII of 1918—The Baroda Co-operative Societies Act of 1904—The Gwalior Co-operative Societies Act of Samvat 1874—Appointment of Provincial Committees of Enquiry—The Provincial Banking Enquiry Committee, Madras—The Vijaya Raghavachariar Committee in Madras—The Gopalswami Ayengar's Committee in Madras—The King Committee in C.P. and Berar—The Oakden Committee in U.P.—The Calvert Committee in Burma—The Economic Depression of the 1930's and after—The Scheme of reorganisation—The Government assistance to Central and Provincial Banks—Reorganization of Primary Societies—Reorganisation of Central Banks—Role of Provincial Banks—Co-operative Banks' Association in Bombay—The Co-operative Movement and the World War II—Agricultural Credit and Marketing Societies—Central financing agencies The Agricultural Finance Sub-Committee—The Co-operative Planning Committee or otherwise known as Saraiya Committee—Co-operation and Economic Programme Committee of the Indian National Congress—Place of Co-operation in the First Five Year	1-75

Chapter — Contents — Pages

Plan—More recent trends of co-operative thought—The All-India Rural Credit Survey Report—Role of the Reserve Bank in the scheme of Reorganized Credit and Marketing—Provision of trained personnel—Implications of State Partnership—Tentative Plans for Co-operative Development during the Second Five Year Plan—Government contribution to share capital of large-sized credit societies—Staff for larger-sized societies—Godowns—Reorganisation of Central Co-operative Banks—State Co-operative Banks—Land Mortgage Banks—Method of contribution to share capital—Co-operative Marketing—Processing and Warehousing—Provision for Departmental Staff—Provision for Relief and Guarantee Fund and Co-operative Development Fund—Co-operative Farming—Co-operative Training and Education—Co-operation in the Second Five Year Plan—Co-operation and Socialistic pattern of society.

II Measures concerning Rural Indebtedness and its Relief in India : 76-104

Causes of Rural Indebtedness—Want of transport and marketing facilities—Rise in value of land brought about by stable conditions in the country—Repayment of ancestral debt—Nature of Money-Lender's finance—Improvidence—Purchase of land at exorbitant prices—Estimates of rural debt—Trend of indebtedness after 1930—Remedial measures adopted—The Deccan Agricultural Relief Act, 1879—Amendments to the Civil Procedure Code—The Usurious Loans Act, 1918, and regulation of moneylending—Provincial legislations providing for regulation of money-lenders' accounts—Restrictions on transfer of land—Registration and licensing of money-lenders—Moratorium Laws—Bombay Small Holders' Act 1938—The Madras Agricultural Debtors' Relief Act, 1938—Moratorium Act in C.P.—Debt Conciliation Acts in various provinces—Compulsory scaling down of debts—Miscellaneous measures—Limitations of Debt Legislation and its effects on credit supply—Grant of Tagavi Loans—Conclusions.

III Credit for Agriculture : 107-121

Characteristic features of agriculture which affect the provision of credit—Self-sufficiency in agriculture

Chapter	Contents	Pages
	—Combination of ownership and management—Agriculture, a complex of many industries—Lack of associative action among farmers—Inelasticity of demand for farm products—Difficulty of grading farm products—Cost of raising agricultural products—Classification of credit for agriculture—Nature of security—Personal credit—Chattel credit—Requirements of a good system of credit—Convenience to the farmer—Equity to the farmer.	
IV	Agencies Marketing Agricultural Credit in India :	122-145
	Enumeration and part played by different agencies—Reasons why the professional money-lenders dominate rural credit—Money-lenders classified—The rate of interest charged by the money-lenders—Objectionable features of money-lenders finance in India—Role of commercial banks in the financing of agriculture—The cultivator and commercial banks—Co-operatives and commercial banks—Indigenous Bankers and Rural Credit—Indigenous banker and money-lender compared and contrasted—State assistance in the financing of agriculture—Chit Funds and Nidhis—Nidhis—Loan offices of Bengal—The Co-operative Agency.	
V	The Co-operative Agency—Assessment of its performance and possible lines of future development :	145-186
	The present position—State Co-operative Banks—Central Co-operative Banks and Banking Unions—Primary Agricultural Credit Societies—Multi-purpose Societies—Classification of societies based on particular form of liability—Long-term Agricultural Credit—Central and Primary Land Mortgage Banks—Analysis of reasons for the failure of co-operative credit—External causes—Internal weaknesses—Fundamental causes analysed—Formulation of solution—Development of co-operative credit—Integrated scheme of Rural Credit—Credit—Processing, Marketing, Storage and Warehousing—Other economic activities—Commercial Banking—Training—Limitations of State partnership and State intervention—Finance and funds—Under the Reserve Bank of India—Under the Ministry of Food and Agriculture—Under the National Co-operative Development and Warehousing	

Chapter	Contents	Pages
	Board—Under the State Bank of India—Under each State Government—Under each State Co-operative Bank and Central Co-operative Banks, etc.—Recommendations of the Survey Committee in details—Development of Co-operative Credit—Reserve Bank—Central Government—The Co-operative Movement—Structure and personnel—Operation and supervision—Development of co-operative economic activity especially marketing and processing and storage, warehousing and distribution—Co-operative economic activity especially marketing and processing—The State Government—The Co-operative Movement—Storage, warehousing and distribution—Development of rural and co-operative banking facilities—Development of facilities for the training of personnel—Miscellaneous Recommendations of the Survey Committee—Rural Savings—Debts and Tenancy Legislation—Stabilization of Agricultural Prices—Forward Markets—Famine Funds—Village Roads—Transport charges—Finance for Rural Industries—Administrative Reforms—Larger Context.	
VI	Pilot Schemes of Integrated Rural Credit and Marketing :	187-217
	State Partnership and Patna Congress—Significance of Pilot Projects and the need for experimentation—The Pilot Scheme in U.P.—The existing position—Features of a larger-sized credit society—Area of operation and membership—Capital—Borrowings from the U.P. Bank—Issue of Loans to members—Activities of the larger sized society—Its management—Distribution of profits—The Secretary or the Manager of the Larger Sized Society—The Primary Marketing Society at Nauranga—Capital—Borrowings from U.P. Co-operative Bank—General Body—Constitution of the Board of Directors—Activities of the Society—Liability—Pilot Scheme in Andhra—Larger-sized Societies—Membership—State Participation—Loan programme—Godowns—Marketing Societies—Processing Plants—Godowns—Financial assistance—An experiment in a large-sized credit society—The Alamuru Rural Bank Ltd., East Godavari District—Activities of the Bank—Loans—Non-credit Activities of the Bank—Co-operative Farming—Rice Depot—The Pilot Scheme in Bombay—Formation of	

Chapter *Contents* *Pages*

larger-sized primary credit societies—Extent of finance required—Larger sized primary multipurpose societies—Central Financing Agencies—Marketing Societies—Godowns—Regulated Markets—Organisation of Processing Societies.

VII Different Types of Co-operative Societies: 218-303

Different phases of the co-operative movement—Agricultural Production—Primary Agricultural Credit Societies—Importance and characteristics of agricultural production—Conditions necessary to make a society co-operative—Advantages of a Raiffesian Model—Restricted area of operation—Size of societies—Selection of members—Form of liability—Composition of capital—Owned capital—Loans to members—Need for prompt finance—Assessment of credit of a member—Object of a loan—Periods for which loans are given—Sureties—Form of Security for Loans—Rate of interest charged on loans—Overdue Loans—Reserve Fund—Investment of Reserve Fund in the business—Reserve Fund separately invested—Management of a primary agricultural credit society—Dissolution and liquidation of a society—Audit and Supervision—The registration of a society—Growth of Societies until 1929-30—Frozen overdues—Doubtful debts—Bad Debts—Measures of rehabilitation in provinces—Assam, Bengal, Bihar, C.P. and Berar, Orissa, and Punjab—Position of the movement in 1945-46—Form of liability—Area of operation of a primary agricultural credit society—Larger sized credit societies—Proposals of the Reserve Bank and the States—Approval by Planning Commission—Features of a large-sized credit society—Linking up of credit with marketing—Distribution of profits—Management—Progress of Larger sized credit societies in the Madras State—Formation of multipurpose societies or conversion of single purpose into multipurpose societies—Progress in U.P.—Progress in Mysore—Progress in West Bengal—Progress in Bombay—Progress in Madras—Progress of rehabilitation and reorganisation of societies during the post independence period in different provinces—West Bengal—East Punjab—Assam—C.P. and Berar—Bihar—Orissa—Bombay—Madras—Progress of the movement during the earlier years of the pre-partition and post

Contents

Chapter		Pages
	independence period—Membership—Working capital —Distribution of Working capital—Loans and advances—Purpose and period of loans—Security for loans—Interest rates on lendings—Non-credit activities—Grain Banks—Review of progress of Agricultural Credit and Multipurpose Societies in different States—Bombay—Andhra—Madras—U.P.—Punjab—Madhya Pradesh—Orissa—West Bengal—Hyderabad —Orissa—Classification of societies at audit—Societies under liquidation—Evaluation of the agricultural credit and multipurpose movement.	
VIII	Central Financing Agencies:	
	Genesis and growth of central financing agencies —Categories of central banks—Primary co-operative central banks—Mixed type—Pure Central Co-operative Banks—Area of operation—Branches of Provincial Bank—Management—Composition of capital—Deposits—Employment of capital—Distribution of profits—Audit and Supervision—The Co-operative Banking Structure—Central Banks Vs. Branches of Apex Bank—Central Banks Vs. Banking Unions—Comparison and contrast between a Union established in Bombay and that recommended by Reserve Bank of India—Banking Unions in Bombay—Period of expansion of central banks—Impact of Depression on central financing agencies—Period of rehabilitation—Reserve Bank of India and Co-operative Finance—Limit of finance and investment of funds—Period of loans and their recovery—over-due debts—Avoidance of fictitious payments—Disclosure of Bad and Doubtful debts—Linking of borrowing and lending rates—Appropriation of profits—conclusions—Impact of war on central financing agencies—Post Independence period from 1947-1954—Recommendations of the Advisory Committee on Agricultural Credit in respect of structure, branches, capital, local deposits, working capital of central banks and their administration—Formation of new organisations—Maintenance of fluid resources and form of fluid resources—Divergence of opinion regarding standards of fluid resources—Formulation of uniform standards of audit classification for central co-operative banks—Reorganisation of the co-operative movement and	304-381

Chapter	Contents	Pages

Reports of officers of Reserve Bank of India in Assam, Ajmer, Bihar, Bhopal, Hyderabad, Himachal Pradesh, Madhya Bharat, Mysore, Orissa, Punjab, Pepsu, Rajasthan, Saurashtra, Travancore-Cochin, Uttar Pradesh, West Bengal, Position of central banks at the end of 1954—Bye-laws of a central co-operative bank—Commercial activities of co-operative banks—Branches of central banks—Annual or other periodical statements to be submitted by central banks—Distribution of net profits—Appendices showing the operations of Central banks.

IX Provincial or State Co-operative Banks—The need for an apex bank—Recommendations of Maclagan Committee in India—Origin growth and development of provincial banks in India—Bombay, Madras, C.P. and Berar, Bengal, Bihar, Orissa, Mysore, Hyderabad—Period of expansion—Period of depression and rehabilitation—C.P. and Berar—Bihar, Orissa—Provincial banks during war time—Post-partition period and post independence period—Statewise review—Madras, Punjab, Bengal, U.P., Bihar, Assam, Orissa, Coorg, Ajmer-Merwara, Mysore, Madhya Pradesh, Hyderabad,—Reorganisation of Provincial Banks—Lines of reorganisation in Assam, Ajmer, Bihar, Bhopal, Hyderabad, Himachal Pradesh, Madhya Bharat, Mysore, Orissa, Punjab, Pepsu, Saurashtra, Travancore-Cochin, U.P., Vindhya Pradesh, West Bengal—Comparative position of Provincial Banks in 1952-54—Working of Co-operative State Banks in States—Madras, Andhra, West Bengal, U.P., Punjab, Bihar, Madhya Pradesh, Orissa, Assam, Hyderabad,—Relations of the State Co-operative Banks with the Reserve Bank of India—Inspection of societies by State Co-operative Banks—Bombay State Co-operative Bank—Origin—Aims and Objects—Membership—Constitution of the Board of Directors—Paid up share capital—Deposits—Rate of interest on borrowings—Investments of the bank—Owned funds—Inland Exchange and remittance of funds—Mutual Arrangement Scheme—Transit Insurance—Bombay Bankers' Clearing House—Branch Banking—Revised constitution of the Board of Directors—Qualifications of Directors and their election—Executive Committee—and Branch 382-465

Chapter	Contents	Pages
	Committees—Integrated System of Agricultural Finance—General observations—Loan operations—Societies and individual agricultural credit societies—Advances to central financing agencies—Short-term loans—Arrears of agricultural loans—Intermediate term loans—Finance for special crops—Sugarcane—Potato crop—Finance to marketing co-operatives—Bank's shops for sale of produce—Finance to farming, irrigation and processing societies—Cash credits loans and advances to urban banks—Finance to industrial co-operatives—Loans due from societies in liquidation—Over-dues—Authorized and unauthorized—Overdue interest and bad and doubtful debts—Distribution of profits and building up of credit stabilization fund—Income and expenditure of the bank—Uneconomic branches—Inspection of affiliated societies—Audit of the bank and its branches—Administration—Bombay Co-operative Bankers' Association. appendices.	
X	The Integrated System of Agricultural Finance in the Bombay State—Implications of institutional credit system—Crop loan system—Procedure for the fixation and operation of credits to creditworthy borrowers—Basis of Agricultural Finance—Types of creditors—Security for different types of credits—Limits for loans—Members of CFA's—Procedure for fixing agricultural credit—Assets statements—N.C. statements—Scrutiny of N.C. Statements—Agricultural finance in Backward tracts—P & S—Unions and Agricultural Finance—Takavi advances by Government—Central Banks and Banking Unions—Opening of new branches—Subsidies for unremunerative branches—Additional measures for supervision of agricultural credit operations—Action to be taken by Government and the Registrar for implementing the scheme.	466-479
XI	Long-term Credit—Co-operative Land Mortgage Banks—The need for long-term credit for agriculture—Why a co-operative agency is more suitable—Structure of Land Mortgage Banks—Recommendations of Central Banking Enquiry Committee—Essentials of success of Land Mortgage Banks—Beginnings of Co-operative Land Mortgage Movement in India—Land Mortgage Banking in Punjab—	480-562

Chapter	Contents	Pages

Madras—The Primary Land Mortgage Bank—Procedure for preparing loan applications and transmission to Central Land Mortgage Bank—Sanction of loans—Valuation of land, enquiry into and ascertainment of repaying capacity of borrower—Income of land mortgaged—Reliability of irrigation source—Sale Statistics and their maintenance—Record in regard to leases—Points to be noted in the records—Revaluation of mortgaged lands—Points to be noted during re-valuation and rectification of defects—Personal inspection by the Departmental Staff—Position of Primary Land Mortgage Banks in Madras—Finances of Primary Land Mortgage Banks—Rate of interest charged—Objects of Loans—Repayment of loans—Need for special powers of recovery—The Madras Land Mortgage Bank Act 1934—The Madras Central Land Mortgage Bank—Management—Loan transactions of the Bank—Advances—Lending rates—Borrowings—Period of debentures—Marketability of debentures—Interest rates on debentures—Retirement of Debentures—Causes of success of the Bank—Delays in sanction of loans—Solutions suggested examined—Amendments to Madras Land Mortgage Bank Act on the lines of Land Improvement Loans Act—State aid to Co-operative Land Mortgage Banks in Madras—Effect of war on Land Mortgage Banks—Statistics relating to Central Land Mortgage Banks—History of Co-operative Land Mortgage Banking in Bombay—Primary Land Mortgage Banks and their working—Loan applications—Valuation of lands—Sales statistics—Rental statistics—Assessment of Income and repaying capacity—Departmental inspections—Loans and their objects—Membership—Borrowings of Primary banks—Operations of Land Mortgage Banks—The Bombay Provincial Co-operative Land Mortgage Bank—Land Mortgage Banks and Debt Adjustment Legislation—Debentures and their retirement—Financial position of Bank as at 30-6-1954—Difficulties of Land Mortgage Banks in the Bombay State—Co-operative Land Mortgage Banking in other States—Andhra—Mysore—Madhya Pradesh—Orissa—Travancore-Cochin—Saurashtra—Hyderabad—Other States—All India statistics relating to Land Mortgage Banks—Impact of Land Reforms on Land Mortgage Banks—State assistance—Elimina-

Chapter	Contents	Pages
	gress of marketing co-operatives in the Indian Union —Bombay—U.P.—Madras—Andhra—Madyha Pradesh—Bihar—Orissa—Punjab—Hyderabad—Himachal Pradesh — Pepsu — Concluding observations — Processing societies at work—Co-operative Ginning and Pressing Societies in Bombay, and Mysore States—Statistics of Sugar factory Pravavanagar. Appendix—Recommendations of C.L.E. Committee.	
XIV	The Role of the Reserve Bank of India in the scheme of Agricultural Finance in India—Short-term and medium-term credit—Amendments to the Reserve Bank of India Act—Procedural Reforms—Liberalization of the procedure for grant of loans and advances —Relaxation of conditions regarding C class societies —Standardization of data to be supplied—Liberalization of RTR facilities—Inclusion of Part B and C States within the scope of Section 17 of the Reserve Bank of India Act—Long-term finance—The Rural Credit Survey.—Standing Advisory Committee and its division into two boards—Central Committee for Co-operative Training—Scheme of Training Co-operative personnel at different levels—Training of higher staff—Training of subordinate personnel—Orientation course for Co-operative Institutions in Village Training Schools—Pilot Course of training in Agricultural Marketing—Statement showing loan and advances.	737-752
XV	Co-operative Legislation— Appointment of a Law Committee by the Government of India—Main features of integrated scheme of co-operative development—Model Bill recommended—Provisions thereof—Definitions—Registration of co-operative societies—Members of co-operative societies and their rights and liabilities—Management of co-operative societies—Privileges of co-operative societies—State Aid to co-operative societies—Properties and funds of co-operative societies—Audit, Enquiry Inspection and Surcharge—Settlement of Disputes—Land Mortgage Banks Execution of Awards, Decrees, Orders and Decisions—Appeals Revision and Review —Offences and Penalties—Miscellaneous provisions—Important provisions in the Model Rules.	753-778
	Bibliography	779-781
	Index	782-801

CHAPTER I

GENESIS ANO DEVELOPMENT OF THE CO-OPERATIVE MOVEMENT IN INDIA

Co-operation, in its broadest sense of working together for a common purpose and for mutual benefit, pervades every sphere of human life. It is the concrete expression of associative spirit present in humanity. This priinciple of co-operation is not in any way new to India. Co-operation has been practised in this country since ancient times. The Indian joint family system Is one instance of indigenous co-operation. Members of the joint family lived under one common roof and the expenses of the household were met from the income of the joint family. The feeling of brotherhood and mutual help form the basis of the joint family. Another institution resembling co-operation that flourished in the village was the Panchayat. It was mainly founded on the principle of community, self help. The main function of the Panchayat was to look to the social and economic welfare of the community and the decisions of the Panchayat were enforced under penalty of social boycott.

2. There are even to-day in South India institutions known as chit funds which are also based on principles of mutual association. The Nidhis prevalent in the same region provide further instance of mutual credit associations and they are in a way the product of the chit fund system and form the earliest institutions to tackle the problem of mutual credit in an organized manner.

3. India is a land of villages, and more than 70 per cent. of its population lives in its villages and income from agriculture forms nearly 50 per cent. of the total national income. For centuries past the Indian village, with its autonomous corporate life, the Panchayat Rajya, the joint family system, and subsistence agriculture continued to exist until it received a rude shock under the British rule by the middle of the 19th century. The impact of the Western ideas of individual rights undermined the joint family system; the new system of law and its administration introduced by the British made a serious inroad into the old Indian

rural life. The sanctity attached to freedom of contract dissuaded the Civil Coutrs from going behind the letter of the law and this rendered the administration of justice a mere mechanical process. This gave ample opportunity to the greedy moneylenders to exploit the ignorant farmers on the one hand and encouraged the improvident and irresponsible sons of the landholders to borrow freely for any unproductive purpose. This unfortunatlely resulted in changing the entire aspect of borrowing and lending. Under the old system, a debt could be satisfied by repayment, no matter what the period of repayment was. The obligations incurred by one generation could be honoured by the succeeding one. In short, the debts incurred by a father could be repaid by his sons and grand-sons, while under the new Statute of Limitation a debt, if not repaid during the period of three years from the date it was incurred, was extinguished unless enforced through a court of Law. The period of repayment was, however, twelve years,if the debt was secured by mortage of land or other immoveable property. The creditors considered it safer, therefore, to make outright purchases of land on the understanding that it should be leased to the borrowers for cultivation with the result that in the new setup a large number of peasant-proprietors became tenants at will. By the latter part of the nineteenth century the process of transfer of agricultural land from the peasant-proprietors to the land-grabbing sowkars became a pretty common phenomenon. Under the old Village Panchayat system disputes were settled in the village itself--a fact which placed serious restraint on the practice of falsehood for fear of detection and punishment by the village community. Under the new system of administration of justice by the British courts, the distance of the civil court from the village for the trial of disputes afforded a loophole and an excuse for making all sorts of false pleas. In recovering his claim through a civil court, the creditor had naturaally to incur heavy expenses on account of stamp duty, pleader's fees, travelling expenses of witnesses etc. As he could not legitimately recover all these expenses, he often took a bond from the borrower for an amount considerably in excess of that given to the borrower. The borrower on his part sought to escape his liability by denying the claim altogether. Thus fraud and dishonesty came to be associated with the monetary trans-

actions between the farmer and the money-lender. Further, the deliberate destruction of indigenous rural industries by the British manufacturers and the import of cheap manufactured articles from abroad disturbed to a great extent the rural economy and led to the pressure of population on land. The advent of peace under the British Raj had already resulted in an increase in population. This coupled with the Hindu and Muhammedan laws of inheritance gave rise to a fragmentation and subdivision of holdings, making agriculture an unremunerative and uneconomic occupation. With the opening of the Suez Canal during the latter part of the nineteenth century and availability of European markets for Indian agricultural products, particularly commercial crops, there was a considerable spurt in the prices of agricultural products--the only redeeming feature in the economic situation. But it may be noted that the farmer himself had a little or no share of this rise in prices as a host of rapacious intermediaries or middlemen intervened between the primary producer and the final consumer under the old system of marketing in private or unorganized markets, with the result that the share of the producer was a mere fraction of the final price paid by the consumer. The agriculturist had, however, to pay a higher price for the products which he bought from outside. Again the new Land Revenue system which insisted on payment in cash instead of payment in kind under the old system was no less responsible for the debt which the farmer had to incur for payment of land revenue to Government at usurious rates of interest. The debt so incurred could be repaid out of the sale proceeds of a part of the produce which had to be parted with for a low price under conditions of compulsion. Lastly, with new trends and shifts of trade and commerce to new places which grew into cities or towns, the main intelligent classes migrated from villages to cities and towns which offered them better prospects of making a living by a liberal profession or by engaging in trade. The impact of all these factors on the village life was that the old rural economy came to be shattered and " the more obvious features of the situation presented themselves in the form of usury and land-grabbing on the part of the moneylending classses, while the agricultural classes bowed to this alejest state of affairs through sheer helplessness."

The situation became further aggravated by frequent failures of monsoon and a series of famines occurred during the latter part of the nineteenth century. In the circumstances, it is not surprising if the people became fatalistic and their illiteracy helped them to become despondent. This era was, therefore, characterised by murderous uprisings of the debtors against creditors as evidenced by the Santhal rebellion of 1855 and the Deccan Riots of 1875, enforced sales of numerous holdings, and the degeneration of the peasant-proprietors to the level of landless labourers as also the mounting debt of the agricultural classes.

2. **Early Debt Relief Measures:**—On account of small holdings, vagaries of the monsoon, inadequate irrigation facilities, frequent failure of crops and many other causes, the income of the farmer had shrunk very low and a great majority always found themselves in debt. The Indian Central Banking Enquiry Committee estimated the average income of the agriculturist in India at Rs.44-, i. e. at Rs.3-8-0 per month, or less than 2 annas a day. The total amount of rural indebtedness was also estimated at about Rs. 921 crores. The Deccan Riots of 1875 brought the the problem of rural indebtedness to the forefront for the first time. The Deccan Riots Commission which was appointed to make enquiries into the causes of this discontent recommended that suitable measures should be adopted in order to provide financial relief to the agricultural classes and the Deccan Agricultural Relief Act was passed as a resuult in 1876. Subsequently, in 1882 Sir William Wedderburn was deputed by by the Bombay Government to investigate the whole problem of agricultural indebtedness and to suggest ways and means to ameliorate the economic condition of the rural classes. Sir William submitted his report and suggested therein establishment of agricultural banks for advancing loans to the agriculturists. His scheme included the liquidation of Sowkari debts of cultivators also. But the Report was unfortunately not accepted by the Government. In the following year the Land Improvement Loans Act of 1883 was passsed as a result of the recommendation of the Famine Commission. The Act enabled the Government to advance loans to landowners on the security of land or other property, at a reasonable rate of interest for effecting improve-

ments of a permanent nature in the land. This measure, however, failed to give adequate relief to the real tiller of the soil. In 1884 another Act known as the Agriculturists Loans Act was passed. It provided for advancing takavi loans on joint security on the recommendation of petty revenue officials. As the recoveries were also to be effected through these officials, the latter were reluctant or hesitant to take any risk. The Act did not, therefore, prove to be of much benefit to the agricultural classes. Again, Post Office Savings Banks were opened and the law relating to debt was frequently amended. Special legislation was also enacted at various times in different areas for dealing with tenants' rights, alienation of land, settlement of debts and restraint on usury. The effect of these measures was however, partial and incomplete. Government also made further efforts through education and sanitation to improve the economic and the social condition of the poor classes without much success. Without, however, abandoning the class of remedial measures, the Government turned its attention to co-operation as the only hopeful method of relieving the situation and solving the problem before it.

3. **Beginning of the Statutory Forms of Co-operation in India:**—The idea of using co-operation as a means of combating the Indian rural problem was first conceived by the Governement of Madras, which sent Sir Frederick Nicholson to Europe to study the theory and practice of agricultural banking and to suggest means by which a similar movement might be started in that Presidency. Sir Fredrick made extensive tours both in India and in Europe. While touring in Germany Sir Fredrick was particularly impressed with the Raiffeisen type of village banks which were established on the basis of joint and unlimited liability, restricted area of operation, allocation of certain portion of profit to an indivisible reserve fund, limitation of loans to members, the issue of loans on personal security and administration of societies by honorary office-bearers. His reports were published in two volumes in 1885 and 1897. He summarised his conclusions in two words, viz; " Find Raiffeisen ". By this he meant not only that the system of rural credit societies first started by Raiffeisen should be given a trial, but that genuine enthusiasts were

needed to launch the movement and make it a success. The Madras Government reviewed these Reports in 1899. Sir Frederick recommended that at least in the Madras Districts small and locally worked institutions on the lines of the European banks of the Raiffeisen type should be started. While Sir Frederick's enquiry was in progress, the U. P. Government had appointed Mr. Dupernex who had some previous experience of the co-operative movement in Europe, to suggest by local investigation a form of co-operation best suited to the Province. His conclusions were summed up in his book entitled " People's Banks for Northern India ". Dupernex advocated the establishment of village co-operative societies also based on Raiffeisen principles. He also suggested the formation of urban banks to act as agencies for organizing and financing rural credit societies, and for disseminating principles of co-operation. The recommendations of Sir Frederick Nicholson and Dupernex soon began to bear fruit. Scattered societies on the lines indicated began to be started by far sighted officers like Maclagan in the Punjab and some district officers in other Provinces. By 1900, a few societies had also started work in different parts of the country. These societies, in the absence of special legislation suited to their requirements, had to be registered under the Indian Companies Act of 1882. Meanwhile, the Indian Famine Commission, of 1901, strongly advocated the formation of agricultural banks on the lines of Mutual Credit Associations of Europe. Lord Curzon, the then Viceroy, was quick enough to realize that no great results could be expected from uncoordinated individual efforts and accordingly appointed a Committee under Sir Edward Law to examine the existing pioneer societies and to suggest lines on which legislation might be introduced. This Committee included Sir Fredrick Nicholson and Mr. Dupernex as its members. The Committee was further directed to go into the question of starting societies and make appropriate recommendations after consulting the local Governments and after taking into account the experience of the district officers who had already experimented with the societies. The Committee arrived at the conclusion that co-operative credit societies deserved every encouragement and that they should be given a fair trial. It further suggested the form of legislation and drew up model schemes for the management of rural and

urban societies. On the basis of these recommendations, the Co-operative Societies Act, X of 1904, was passed and came into force in March of the same year. At the time of the publication of the Act its aims and underlying principles were fully explained to local Governments and the public in an admirable way in a Memorandum drawn up by Sir Denzil Ibbetson. Thus the credit for sponsoring the co-operative movement in India goes to the Government.

4. **The Co-operative Societies Act X of 1904.:**—The object of the Act as defined in its preamble was to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means. Under the Act Societies were classed as rural and urban, and while the latter were left a free choice, the former were bound to accept unlimited liability. Their area was closely restricted; loans might be made only to members and on personal or real but not ordinarily on chattel security. An annual official audit was made compulsory. The interest of any member in the share capital of the society was strictly limited and special exemptions from fees payable under the Stamp, Registration and income-tax Acts were conceded. Societies were placed in charge of official Registrars with very wide powers of control and supervision. No indication was given, however, as to how the society should provide the resources to meet the depositors' liabilities as they arose, nor did the legislation at this stage deal with the subject of Central Banks and higher storeys of co-operative finance as also the non-credit types of co-operative activity. The local Governments set to work in order to give effect to the intentions of the Act. The first step was to appoint Registrars in the various States to undertake co-operative propaganda and start a few societies which could serve as a model so as to train the rural people in the proper method of management. Local conditions of course varied from province to province, and different types of societies began to make their appearance as the peasantry was not slow to grasp the new system and was in fact anxious to put it in practice in to their own villages, while many of the upper classes came forward to champion the movement and to recommend it to their poorer brethren. The general progress made in the first few years was really encouraging. During

1906-07 the number of societies rose to 843 with a membership of 90.8 thousand and a working capital of Rs.23.71 lakhs, and these figures rose to 17,327, 824.4 thousands and Rs. 896.6 lakhs at the end of the year 1914-15. Though the period of ten years from the passing of the Act of 1904 and the publication of the Report of the Maclagan Committee may be taken as the period of initial effort, the progress made had out-grown the dreams of its sponsors. The framers of the Act had their eyes fixed mainly on the rural problem and aimed primarily at mitigating the stringency and costliness of agricultural credit. But the movement had not confined itself to these narrow limits. The large and growing industrial population was also deeply in debt and also needed help not only in the matter of redemption of old debt but also in the provision of credit for necessary trade or domestic purposes at reasonable rates of interest. Since the word' credit' appearing in the preamble to the Act has served to make the movement predominantly a credit movement, non-credit types of co-operative activity could not be organized, nor could co-operative finance be made available for their purpose; While in actual practice, the example of credit societies had led to the establishment of co-operative societies for distribution and for purposes other than credit, for which no legislative protection could be given under the existing legislation. This was the first weak point in the Act. There were of course a few societies for meeting the needs of artisans and industrial workers in towns and cities. Similarly, urban credit societies were making some progress but they were mostly started by the middle classes in a few provinces. A second defect in the Act of 1904 was that there was no provision for the formation of Federations or Central Societies for supervision or control or finance and for purposes other than credit. Lastly, the division of societies into rural and urban was not scientific. To remedy these and other defects of a minor nature which experience had brought to light, the Government of India re-examined the whole position in 1911-12 and decided to have fresh legislation with a view to widening the scope of the old Act.

5. **The Co-operative Societies Act, II of 1912.**:—The Co-operative Societies Act II of 1912 was drafted with great care

after fully considering the large mass of material relating to the working of societies. The defects found in the Act of 1904 were corrected but its main features, viz., simplicity and elasticity, were retained in the new Act. The object of the Act as mentioned in the preamble was to facilitate the formation of co-operative societies for the promotion of thrift and self-help amongst agriculturists, artisans and persons of limited means. The new Act contained provisions for the registration of all types of co-operative societies including central financing agencies and supervising unions. The classification of societies as rural and urban was done away with and the Act provided for its substitution by making a distinction based on the nature of liability adopted. The primary agricultural credit societies were to be registered with unlimited liability, while central societies with limited liability. Shares or interest of a member in the capital of a society was exempt from attachment. It legalized the registration of unions and central financing agencies that had already come into existence. Finally, it gave wide poweres to local Governments regarding the working of societies and settlement of disputes by arbitration. The Act permitted societies with unlimited liability to declare dividend on shares after 25% of the net profit had been appropraited to the statutory reserve fund with the permission of the Provincial Government. Provision was also made for setting apart a portion of the profits for educational and charitable purposes. A number of minor improvements with regard to registration, audit and other administrative details was also introduced, but the Act made no provision for fluid resources to meet depositors' liabilityies.

6. **The Effect of the Act II of 1912:**—The immediate effect of the new Act was to infuse fresh energy into the movement. There was an increase in the number of societies, membership and working capital. New types of societies for the sale of produce, milk supply, manure purchase and cattle insurance as also societies for the purchase of common necessaries of life came into existence. The number of central institutions was growing rapidly and the confidence of the public was being won in greater measure every year. In the circumstances, the Government of India thought that the time had come to take stock of the position,

and on 17th June 1914 they issured a comprehensive resolution, reviewing the progress that had been made and clearly setting forth the practical lessons that could be drawn from the experience so far gained. The Government of India also felt at the same time that it was not in a position to foster the growth of the movement unless it was satisfied that the movement was progressing on economically and financially sound lines. Further, the financial management of central societies was becoming more intricate and large sums were involved.

7. **The Imperial Committee on Co-operation in India otherwise known as 'Maclagan Committee':**—It was with a view to investigating and getting the financial aspect of the growth of the movement examined that the Government of India appointed a seven-man Committee under Sir Edward Maclagan in October 1914, and R. B. Ewbank, Registrar of Co-operative Societies Bombay, was appointed as its Secretary. The Committee was directed to suggest measures of financial improvement. The Committee issued a comprehensive Report in 1915, which was was regarded as the Bible of Co-operation for a considerable length of time. It made many constructive proposals of a far-reaching nature for the development of the co-operative movement, particularly in its financial aspects. While recording their findings and making recommendations the Committee observed that under the Co-operative Societies Act II of 1912 all registered co-operative societies, whether they were primary units or federations of such units, were mentioned as societies. In actual practice, however, the Committee found that primary units dealing with individuals, though generally known as societies, were in some provinces also designated as 'banks'. Similarly, the institutions to which such primary units were affiliated were in some provinces called central banks, while in others they were known as town banks, urban banks, district banks, central banking unions etc. It was also found that in certain provinces, Provincial Banks had been organized. The Committee, therefore, decided to classify the societies for the purpose of their Report as (a) primary societies,-those meant for individuals, (b) unions-federation of societies for purposes of supervision, and which did not undertake any banking business : (c) central banks-

federal institutions doing banking buisness and (d) Provincial Banks. The Committee further recommended that the terminology indicated should in future be adhered to by all local Governments. The main recommendations of the Committee regarding the constitution, financial arrangements, audit and supervision of societies were as follows :----

(a) **Primary Societies:**—A society should be registered only when it is organized on sound lines. Its area should as a rule, be restricted to one village. It should aim at building its own capital and strive to be co-operative in spirit and businesslike in its activities. It should compel every member to subscribe to shares and raise as much local capital by way of deposits as possible. Instalments for the repayment of loans should be strictly in accordance with the object for which the loans are granted. Payments of instalments on fixed dates should be insisted on. The accounts of societies should be regularly audited and the management supervised by the Registrar's staff and the staff of Co-operative Organization to which the societies are affiliated. Besides checking the accounts and assisting the Committee in the management of the affairs of a society, the duties of supervisors maintained by unions of societies or central banks should include the education of members in the principles of co-operation. The Statutory audit conducted by the staff under the Rergistrar should also include an examination of the general condition of the society.

(b) **Non-Credit Societies** :----Non-credit societies should be encouraged, but they should be organized only if the move came from the promoters spontaneously, and if sufficient and competent staff both for running such societies and for supervising and guiding their affairs was available. Societies for sale and production and for cattle and hail insurance should also be encouraged, but those for trading purposes in urban areas should be organized with caution. Central co-operative banks may finance non-credit societies, provided they were in a sound position.

(c) **Unions:**—Guaranteeing Unions for the purpose of mutual supervision, assessment of credit and for forming a link

between societies and central banks should be established in each province.

(*d*) **Central Financing Agencies** :—

(*i*) *District Central Banks* :—Of the three types of central banks, viz., (1) those consisting entirely of indivdidual shareholders, (2) those entirely consisting of society-shareholders and (3) those consisting partly of individual shareholders and partly of society-shareholders, the first type should gradually disappear and the ultimate aim should be to have only the second type. A central bank should have a definite area and all primary agricultural credit societies operating within that area should be its shareholders, and should not ordinarily borrow funds from any other source. All shares in a central bank should preferably be on one basis, but if it was absolutely necessary to attract local capital, the shares allotted to individuals might carry preference as regards dividends. Central banks should make every effort to obtain deposits sufficient to meet their requirements and might raise money by debentures in special cases only. The formal audit of central banks might be done either by a professional Auditor or by Government agency, but detailed examination of the financial condition of banks and their supervision should be entrusted to Government staff only. In addition to annual returns, central banks should be required to submit quarterly statements showing in some detail the state of their finances, especially with reference to their outside liabilities.

(*ii*) *Provincial Banks:*—A provincial or apex bank should be started in every province and all central banks in the province should be affiliated to it. The chief function of such a bank should be to co-ordinate and control the finances of central banks. The bank should also have individuals as shareholders. The shares of such a bank should ordinarily be of one class only. It should secure fixed deposits for the longest possible term and should accumulate good reserves and should not merely rely on cash credits or other borrowings from the banking system. The audit of the bank might preferably be done by a Chartered or Incorporated Accountant and it should be required to submit the same returns as central banks.

(*e*) *Miscellaneous Recommendations:*—The Committee also made recommendations of a general character. The co-ordination of co-operative, Agriculture and Industrial Departments under an experienced officer in each province, closer control over the objects of co-operative societies and over their financial arrangements by Government were among the important recommendations.

8. **Effect of the Recommendations of the Committee** — The recommendations made by the Maclagan Committee had a far-reaching effect on the further development of the movement and they were adopted by co-operative departments in all the provinces. With Co-operation becoming a transferred subject under the Government of India Act of 1919 (Montagu-Chelms--ford Reforms), further impetus was given for the development of the movement by the Provincial Ministers in charge of Co-operation, and the period from 1915-29 was marked by large expansion of the movement in almost all the provinces. This period may be characterised as a period of unplanned expansion and was also marked by conditions of boom after the termination of the World War I in 1918-19. Owing to the spurt in prices up to 1924-25. buoyant conditions prevailed and all conceivable types of societies were launched during the period, with the result that many societies came to be organized without proper preliminary investigation and certainty as to their success. Numer ous co-operative societies for supply and distribution, better farming and better living and better business and for providing long-term and intermediate-term credit sprang up in the provinces and states, though not on a uniform basis. Some of the provinces found it necessary to take stock and re-examine the position of the co-operative movement and felt impelled to enact special legislation, for regulating the working of co-operative societies. It was not, however, until 1925 that the first Provincial Co-operative Societies Act was passed in the Bombay Presidency. Madras and Bihar followed next the example of Bombay in 1932 and 1935 respectively. The Bombay Act was adopted with some modifications in Sind. The Bihar Act was adopted for the areas transferred from Bihar and C.P. and the Madras Act was applied to the rest of the Province. In other provinces and states the

All-India Act was applied with suitable modifications. Most of the Provincial Acts were based on the models of Bombay and Madras Acts. A brief reference to the salient features of these Provincial Acts is attempted in the following paragraphs.

9, **The Bombay Act VII of 1925** :---In November 1925 an Act to consolidate and amend the law relating to co-operative societies was passed and it widened the scope of the co-operative movement. Its preamble made it clear that societies could be formed for the promotion of thrift, self-help and mutual aid among agriculturists and other persons with common economic needs, so as to bring about better living, better business and better methods of production. It classified societies according to their main objects on a scientific basis and included definite provisions for the arbitration of disputes, instead of being relegated to the rules as in the old Act, and provision was also made for the recovery of the dues to societies as arrears of land revenue. Government was empowered to make rules for ordering payment of arbitration fees and costs of execution in certain cases. The Act introduced the principle of "one man, one vote" for the first time and provided for the amalgamation of two societies subject to certain conditions. It also prescribed certain penalities for specified offences committed by the office-bearers of societies. The Act also permitted the establishment of a provident fund by societies for the benefit of their members. It also laid down the limits of individual share-holding to Rs. 10,000 in the case of housing societies and to Rs. 3000 in the case of other societies, subject to an overall limit of one-fifth of his total share capital of the society. It also provided for the making of loans to societies by the Local Governments or for guaranteeing the payment of interest on principal or debentures, or both, issued by the societies catering for the long-term needs of the agriculturists. The Registrar was empowered to assess damages against delinquent promoters, and office-bearers of liquidated societies on the application of the liquidator or a creditor. The Act has, however, undergone several further amendments, and the nature and content of these amendments will be known when the new bill is passed into law :

10. The Madras Co-operative Societies Act VI of 1932.

In 1927, the Madras Government appointed a seven-man Committee with Mr. Townsend as President, otherwise known as the "Townsend Committee", to examine the progress made in the co-operative movement in the Presidency since the Maclagan Committee's Report and to investigate the financial system and to make recommendations in regard to propaganda, supervision and control of societies and finance. The Committee was also directed to examine the position in regard to co-operative distribution, production and sale and to make appropriate recommendations in regard thereto. The Committee submitted its Report in 1928, recommending, interalia, that suitable provincial legislation should be undertaken to remedy the defects found in the actual working of the Imperial Act of 1912. A Bill was drafted giving effect to the various suggestions of the Committee and incorporating the results of experience so far gained of the working of the movement. The Bill was passed into law in 1932. The salient features of this legislation are briefly summarised below :—

The Act widened the scope of the movement by laying down the object of co-operative societies as the promotion of thrift, selfhelp and mutual aid among agriculturists and other persons with common economic needs so as to bring about better living, better business, and better methods of production. The preamble of the Bombay Act was practically repeated. The Act defined unlimited liability and contained drastic provisions for the recovery of overdues. It further provided for arbitration of disputes and conditional attachment of the property involved; it laid down the procedure of liquidation giving larger powers to the Liquidator to wind up the affairs of societies expeditiously, under the guidance of the Registrar. In order to promote business methods in co-operatives, the Act penalized certain acts or omissions on the part of office-bearers of societies. Provision was made in the Act for the Registrar to supersede the Committees of societies which were not functioning properly and to appoint suitable persons to manage the affairs of such societies for a limited period. The Act empowered the Registrar to enquire into the conduct of any person who had taken part in the organization or management of a society and was found to have mis-

appropriated or fraudulently retained any property of the society or had been guilty of breach of trust in relation to the society, and make an order requiring him to repay or restore the money with interest or otherwise compensate the society for the loss.

11. The Madras Land Mortgage Banks Act, X of 1934:— The Townsend Committee on Co-operation in Madras also made several recommendations in regard to the working of land mortgage banks. The chief recommendation was for the establishment of a central organization for financing the land mortage banks. Other important recommendations of the Committee were the amendment of the Transfer of Property Act for conferring on the land mortgage banks the power of sale of the mortgaged property without resort to courts, and the recognition of debentures of the land mortgage banks as Trustee Securities. The Committee further suggested that the Local Government should guarantee the interest on debentures for a specified period. The Committee concluded its Report with a recommendation that a separate legal enactment was necessary to deal with the problem of land mortgage banks, as the latter differed materially from co-operative credit organizations. A separate Act known as the Madras Co-operative Land Mortgage Banks Act was accordingly passed by the Madras Legislative Council in 1934. The main provisions of the Act are briefly mentioned below :—

The object of the Act is to facilitate the working of co-operative land mortgage banks in the Province and to provide for the grant of long-term loans to the owners of land and other immovable property in order to enable them to discharge their debts and to carry out agricultural and other similar improvements. It provides for the issue of debentures and the appointment of Trustees for the purpose of securing the fulfilment of obligations to the debenture-holders. It enables the Local Government to guarantee the principal of and interest on the debentures issued by the Central Land Mortgage Bank. The Act empowers the Registrar to distrain and sell the produce of the mortagged land including the standing crops there-on in order to recover arrears of instalments of loans due to a land mortgage bank. The Act enables the land mortgage bank to bring to sale

the property mortgaged for loan without the intervention of the Civil Courts. The Sale Officer appointed by the Registrar can put up the mortgaged property for public sale. The Act also contains various miscellaneous provisions for the successful working of the Land Mortgage Banks. It may be noted that the Madras Central Land Mortgage Banks Act is only a supplement to the Madras Co-operative Societies Act of 1932 in so far as co-operative land mortgage banks are concerned. Land mortgage banks are governed by both Acts.

12. **The Bihar and Orissa Co-operative Societies Act VI of 1935:**—The Local Government appointed in 1931 a Committee under Dewan Bahadur Devsikhamani Mudaliar to review the condition of co-operative societies in Bihar and Orissa and to suggest ways and means for their improvement. The Committee recommended the replacement of the All-India Act II of 1912 by a Provincial Act and as a result the Bihar and Orissa Co-operative Societies Act was passed in 1935. Under the Act a society need not have as its object the promotion of common economic interest of members, but it can be formed for the purpose of promoting other common interests of members in accordance with co-operative principles. The Act defines limited liability and contains specific provisions for the arbitration of disputes and lays down the procedure for liquidation. The Registrar is given wide powers. He is empowered to require any society to amend its bye-laws and he can also dissolve the co mittee and may disqualify all or any of its members from being elected to the managing committee. The Act also gives powers to the Registrar to enquire into the conduct of any person who has taken part in the organization or management of a society, if such a person has made any payment which is contrary to the law or by reason of his gross negligence and misconduct has involved the society in any loss or has misappropriated or fraudulently retained any property. When the Registrar is satisfied that any person is guilty of such conduct, he can make an order requiring him to contribute such sums to the assets of the society as he thinks fit. The Act also contains provisions whereby some of the powers of the Registrar can also be conferred on any co-operative federation by the Local Government, who may direct

all or any registered societies to get themselves affiliated to a co-operative federation.

13. **The Bengal Co-operative Societies Act XXI of 1940**--The Act is a comprehensive measure designed to rehabilitate the co-operative movement in the Province. It provides for the registration of any society having for its object the promotion of the common interests of its members in accordance with co-operative principles and it enables such a society to call for a statement of claims from creditiors, of a member or a prospective member. The debts due to such a society are to be treated as a first charge. The Act confers wide powers on the Registrar, who is empowered to direct the conditional attachment of property of debtor-members. The Registrar is empowered to dissolve or reconstitute the manging committee of a society, if he is satisfied that it is mismanaging its affairs. The Act further places restrictions on borrowings by a society and prohibits the making of loans by a society to any person other than a member in excess of a prescribed limit or on the security of moveable property. There are special provisions also in the the Act to ensure the satisfactory working of land mortgage banks.

14. **The Hyderabad Co-operative Credit Societies Act II of 1323 Fasli**—This Act is almost the same as the Co-operative Societies Act II of 1912 except that provision is made for the settlement of disputes touching the business of a society by arbitration and for the enforcement of the awards or arbitrators.

15. **The Mysore Co-operative Societies Act VII of 1918, as amended up to 1935**:—The Act as amended from time to time is mostly on the lines of the provisions contained in the Madras Act. It also includes provisions relating to Land Mortgage Banks for which the Madras Province has a separate Act. A special feature of the Act is that it contains a list of objects for one or more of which a co-operative society may be formed. Under the Act agricultural credit societies can be formed with limited liability and there is no restriction on the area of operation of such a society.

19. **The Baroda Co-operative Societies Act of 1904 as amended up to 1927:**—The Co-operative Societeis Act of 1904 made provision for registration of credit societies only, which were meant for lending monies to their members only. As a result, activities leading to the betterment of the economic position of members could not be organized on co-operative lines. To remove these shortcomings an Act was passed in 1913. This Act permitted societies to be formed for financing the activities of artisans and persons of limited means. It was amended in 1927, being modelled on the Act in operation in the Bombay Province.

17. **The Gwalior Co-operative Societies Act of Sanvat:—1974** The Act includes most of the provisions of the Co-operative Societies Act II of 1912. Under this Act the crops and other property of a member, entered in the books of any society are deemed to be pledged with it,and no creditor is entitiled to realize his dues from the sale of such property unless all the outstanding dues of the society against the member. are paid. Shares and deposits of members are not liable for attachmment. The Act provides for the prosecution of any officer or a member of any society under the Criminal Law if he intentionally failed to supply any information in connection with the enquiry into the affairs of the society required by the Director of Cooperation appointed under the Act.

18. **Appointment of Provincial Committees of Enquiry:** The Maclagan Committee had recommended that Co-operation should be left under the control of the Provinces instead of being retained by the Centre, and this recommendation, along with others made by it, was given effect to in the Government of India Act of 1919. In the context of rapid expansion that had taken place during the period subsequent to 1915, and since the Report of the Maclagan Committee, the Provincial Governments felt impelled to take stock of the position and to ensure that the movement was progressing on right lines. The Government of Madras was the first to appoint a Committee of Officials and Non-officials under Mr. Townsend in 1927 for the purpose of investigating the financial condition of the movement and for

making certain recommedations with regard to other aspects of the working of the movement already referred to. The recommendations of the Committee have been already touched on. Some of the recommendations made by the Committee were given effect to in subsequent years, i. e. during the period after the economic depression of 1930's while many of the recommendations could not bear fruit as the economic depression overtook the movement in subsequent years, to meet the consequences of which different measures had to be considered.

19. The Provincial Banking Enquiry Committee, Madras.:- In 1929 the Provincial Banking Enquiry Committee reviewed the progress made and observed that the co-operative banking agency was adequate for the development of co-operative societies and was capable of great expansion also. But it warned that expansion could not safely be hurried as any attempt at forcing the pace of the movement was likely to be disastrous.

20. The Vijayaraghavacharyar Committee in Madras.:— The great economic depression of 1930's created new difficulties and problems, which had to be solved for developing the movement on sound lines. Various proposals were made by the Agricultural Credit Department of the Reserve Bank of India and others for a radical change in the co-operative structure. In order to examine the various proposals made and to tackle problems confronting the movement, the Madras Government, appointed a twentyone-man Committee in 1939 with Sir T. Vijayaraghavacharyar as Chairman and prominent officials and non-officials as members of the Committee. Many of its recommendations for improving the working of agriculural credit societies, land mortagage banks, central banks, marketing socities, and supervising unions were accepted by Government and implemented. A few of the recommendations which advocated fundamental departures from accepted practices were not approved by Government. For example, the recommendaations of the Committee that the liability of rural credit societies should normally be limited, that small village credit societies should be reorganized on a wider basis by grouping a number of them together into a larger-sized society, that central

banks should be converted into pure types of banking unions after completely eliminating individual members etc. were not favoured by Government as it considered that no change in the existing practice was called for.

21. The Gopalswamy Iengar's Committee in Madras.:—Five years later, the Government of Madras appointed a Rayalseema Co-operative Enquiry Committee with Sir Gopalswamy Iengar as its Chariman to examine and report on the condition of the co-operative movement in Rayalseema Cudapah Kurnool, Bellary, Anantapur and Chittur Districts. The appointment of the Committee was considered to be necessary because of the unsatisfactory condition of the movement in those districts. The Committee made certain recommendations of far-reaching importance affecting the working of rural credit societies, central financing agencies and primary land mortgage bonks. Its recommendations were that the existing rural credit societies should be converted into multi-purpose societies, that new societies should be organized on a multi-purpose basis, that the central banks in Rayalseema might be abolished, that the Provincial Bank might finance the primary societies directly by establishing its branches, that the primary land mortgage banks might be abolished and that the Central Land Mortgage Bank, Madras, might finance individuals direct. It also recommended that the responsibility for suepervision of societies should be shouldered by Government at its own cost. These suggestions were not accepted by Government, as a few of them were too radical, and contrary to the accepted practice. But the Government of Madras agreed to subsidize the five central banks in the area and the Central Land Mortgae Bank, Madras, in order to enable them to make loans availble to the ultimate borrowers at reduced rates of interest. Subsidies were also granted to the five central banks in order to enable them to wipe out their bad debts.

21. The King Committee in C. P. and Berar.:—After the passing of the Act II of 1912, the Provincial Co-operative Bank was organized with a view to establishing contact between the central banks and the money market. Between 1912 and 1921 the co-operative movement in C. P. made good progress. There

was an all-round increase in the number of societies, membership and working capital. The general structure of the movement was based on the prmary credit societies at the bottom with unlimited liablity and having no share capital. The primary credit societies mainly depended upon borrowing from central banks, their owned resources being very meagre. The Central Co-operative Banks themselves as intermediaries in the structure depended upon the Provinical Bank for financing the primaries. The shares in the Provincial Bank were mainly held by the Central Co-operative Banks and some of the older societies. Shares orginally held by individuals were reduced and distributed among the various central banks. The holdings of societies were unequal due mainly to the manner in which the shares of individuals were reduced and reallotted to institutions. Till the year 1920 the co-operative movement in C. P. was not dependent on financial aid from the State to any great extent. But the financial position of the Provinical Bank began to deteriorate from 1920 because of its disregard of ordinary banking principles. This had its natural reaction on the central banks. The banking crisis that was brought about was assisted by seasonal catastrophes. Crops failed and money became difficult to obtain. Efforts were made to resuscitate the condition of the Provincial Bank by non-official co-operators and the Co-operative Department. The Bank was also given some finanical aid by the Provincial Government. But the position did not improve and a thorough investigation of the financial condition of the movement was deemed necessary. The Provincial Government accordingly appointed a seven-man Committee in 1921 with Mr. King I. C. S. as its Chairman. This Committee submitted its Report in 1922. Among the recommendations of the Committee the most important one was the liquidation of the Provincial Co-operative Bank and the linking up of the central banks with the joint-stock banks. But fortunately for the Province, the Government did not accept this recommendation, as it was considered to be unco-operative and reactionary. But the Government ordered reconstitution of the Provincial Bank on the basis of an equitable redistribution of shares amongst central banks and rural societies. This was done and the co-operative movement in the Province was saved from the doom it would have otherwise met with if the King

Committee's recommendation had been accepted. Till the onset of the economic depression the co-operative movement in the Province made satisfactory progress and justified the attitude and action taken by the Provincial Government in dealing with the King Committee's Report.

22. The Oakden Committee in U. P. :—Between 1912 and and 1925 the co-operative movement in U. P. had made rapid strides, the number of societies, membership, and working capital having increased considerably. Central banks and later banking unions were formed in order to finance, supervise and control the societies. The rapid growth in the number of societies proved a menace to their sound working and many of the village societies were in an unstable position. The central banks, by their very constitution, could not establish contact with the primary societies. The Local Government tried to consolidate the position of weak societies by engaging more departmental staff for supervising them, and for organizing new societies. But there was little progress in the consolidation of the movement and the Board of Revenue pointed out at the time that there was little genuine co-operation in the Province and that the public were apathetic towards the movement. In order to investigate and report on the reasons, why co-operative societies had not succeeded in gaining the confidence of the people and to make proposals for improving the organization, supervision and control, audit and financing of the movement in all its branches, the Local Government appointed in 1925 a nine-man Committee under Mr. Oakden, I. C. S. as its President, and the Committee consisted of pro--minent non-officialss in the Province. As a result of the recommendations of the Committee, some of the defects of the societies were removed. The work of supervision, education and audit was transferred to the banking unions and trained staff was provided for the purpose in increasing numbers. The central banks were to be mainly the financing agencies and they were sought to be restored to their rightful place as a keystone of the co-operative movement. An attempt was also made at co-ordinating the activities of the co-operative movement with those of other departments like Agriculture, Education etc. Attention

was also devoted to the development of the non-credit side of the movement and some progress was also recorded.

23. The Calvert Committee in Burma. :—The circumstances leading to the appointment of a five-man Committee of Enquiry to investigate the causes of decline of the co-operative movement in Burma under Mr. H. Calvert, I. C. S., for many years theRegistrar of Co-operative Societi3s in the Punjab, and a Member on the Royal Commission on Agriculture, were set forth in a resolution of the Government of Burma in 1928, extracts from which are given below:-

"The present condition of the movement is indicated by the fact that out of 3800 primary agricultural societies, no less than 1400 are in liquidation. The principal causes of this state of affairs are :—

(1) The failure of the guaranteeing union system to discharge the heavy responsibilities placed on the guaranteeing unions in guaranteeing and supervising the finance made to the affiliated societies.

(2) The expansion of the movement beyond the capacity of the Registrar to control it.

(3) The failure to train an efficient staff to support the Registrar.

(4) The adoption of the alternative policy of relegating control to unions.

(5) The organizing of societies ahead of local financing agencies acquainted with local conditions.

(6) The dffiiculty of finding for the new unions registered chairmen competent to perform their duties and the neglect to train them with sufficient thoroughness.

(7) Failure to realize the fact that there are people with whom it is better to refuse to carry on transactions-- people whose character unfits them for enjoyjent of advantages open only to those who practise honety, pun-

ctuality, diligence and thrift. The Provincial Bank which was founded in 1911 had been working at a loss for several years owing to the failure of many primary societies to pay even the interest on their loans. The Bank had now exhausted its cash resources and Government, in consideration of the relations of the Bank with the Department, felt obliged to come to the assistance of the Bank temporarily by guaranteeing it an overdraft with the Imperial Bank of India and decided to accept responsibility for making good the deficit in the Bank's assets reqired to repay the depositors. The cost to Provincial revenues was estimated at alean Rs. 30 lakhs."

23. The terms of reference were :—

(1) To review the present condition of co-operative institutions in Burma with reference to the recommendaations of the Maclagan Committee on Co-operation in India, 1915, and of the Royal Commission on Agriculture in India, and to make recommendations for the improvement and extension of co-operation in Burma. The Committee made many useful recommendations with regard to all aspects of the working of co-operative institutions which were mostly accepted by Government and steps were taken to rehabilitate the movement on the lines recommended by the Committee.

24. The Economic Depression of the 1930's and after :— From 1929 and onwards, acute economic depression set in in India, which had no parallel in its range, intensity and duration. There was a catastrophic fall in the prices of agricultural products and of agricultural land. The co-operative movement received a rude setback in almost all provinces, and programmes for the rectification and consolidation or rehabiliation and reconstruction were initiated in place of expansion and development. This period may, therefore, be called the period of setback and reorganization of the co-

operative movement in India. The signs of recovery began only to make their appearance from the year 1935-36 and onwards. But the setback received by the movement in certain Provinces was so great that recoveries of agricultural prices and of agricultural land had not had any appreciable effect on the movement, e.g., Bengal, Bihar, Orissa and Berar. Owing to a serious reduction in the purchasing power and the repaying capacity of the agriculturist, there was very heavy accumulation of overdues and the freezing of the assets of societies. This naturally resulted in clogging their business and paralysed the working of the co-operative movement over large parts of the country. Coercive action against defaulters proved no effective remedy for the existing state of affairs, as it had only saddled societies with lands which were difficult to dispose of and the proper management of which gave rise to further complicated problems. The impact of the depression was also felt in a serious contraction of co-operative credit and its serious nature was apparent if we consider that the amount of fresh finance in 1939 dropped nearly to 50 per cent.of what it stood at the commencement of the depression. This position was brought about by the working of the debt legislations in most of the Provinces. It may be noted that co-operative debts were given a privileged position under most of the measures passed by the provincial legislatures for the reduction of rural indebtedness. The reasons for special treatment of co-operative debts are too obvious to need any detailed treatment. Despite the preferential treatment accorded to societies, the working of the societies was adversely affected becuse in many provinces a member owing a debt to his society could file an application before the Conciliation Board or the Debt Adjustment Board and get payment of his instalments suspended ed until the award was made by the Board)and approved by the Registrar of Co-operative Societies, thereby directly freezing the funds of the society, irrespective of the ultimate outcome of his application. Large amounts of co-operative funds were thus locked up and the process of their liquefaction was hindered by wilful default and the disinclination towards repayment of debt which proved infectious. As regards the Central Banks, it may be noted that in Bombay, Madras and the Punjab they were in a comparatively sound position. But in some of the other

provinces such as Bengal, Bihar, Orissa, C. P. and Berar, their condition was disquieting. Many central banks in those provinces closed their doors owing to their inability to meet the withdrawals of deposits. The central banks in North Orissa amended their bye-laws and transferred their management to the Registrar of Co-operative Societies for a period of six years as they were no longer in a position to look after their own affairs. The failure of central banks in these provinces was due to reckless overfinancing of societies, inefficient supervision and disregard of sound principles of banking in conducting their business, as also due to faulty organization of the primary units. The financial position of Provincial Banks was on the whole much better than that of the Cnetral Banks, though in a few provinces the position of the Provincial Banks was not very satisfactory. since the strength of the superstructure is dependent on the soundness of the units at the base. In order to prevent large-scale liquidation and winding up of the movement, an examination of the fundamentals of the co-operative structure with a view to have some reorientation of the general policy and lines of future development, apart from immediate measures of rehabilitation was called for. This was entirely necessary for the purpose of ensuring a sound basis of expansion for the future. As a preliminary to action officers or committees of enquiry were appointed at various times in different provinces with a view to examining the position of the movement and suggesting ways and means for its reconstitution and improvement. The following Committees of Enquiry or Special Officers were appointed in different provinces as given on the next page :—

As a result of these enquires, schemes for the rehabilitation of the co-operative movement were formulated and put into force in C. P., Berar and Bihar. A Scheme of Reorganization was drawn up in Bengal, while steps where taken in all other Provinces to reorientate and revitalise the co-operative institutions through the adoption of various measures.

25. **The Scheme of Reorganization.** :—The Schemes of Reconstruction adopted in different provinces naturally differed in detail but they were all based on the pattern of the Rehabi-

Province	Name of the Committee (Title of Report)	Year	Reporting Officer or Name of the Chairman of the Committee
1 Travancore	Co-operative Enquiry Committee.	1935	Mr. G. K. Deodhar
2. Mysore	Committee on Co-operation in Mysore.	1935	Diwan Bahadur K. S. Chandrashekhar Aiyar
3. Gwalior	Report on Co-operative Societies and Banks	1937	Prof. V. G. Kale
4. Hyderabad	Report on Agricultural Indebtedness in H. E. H. the Nizam's Dominions.	1937	Mr. S. M. Bharucha
5. Bombay	Report on Reorganization of Co-operative Movement in Bombay.	1937	Messrs. M. D Bhansale and V. L. Mehta
6. Orissa	Report on the Enquiry into the condition of the Co-operative Movement in Orissa.	1938	Diwan Bahadur Mudliar.
7. Sind	Report of an Enquiry into the Organization and Working of the Sind Provincial Co-operative Bank.	1935	Mr. V. L. Mehta.
8. Berar	Berar Co-operative Enquiry Committee.	1939	Mr. P. K. Gole.
9. Punjab	Report on the Co-operative Movement in the Punjab.	1939	Mr. F. W. Wace
10. Bihar	Board of Experts for Co-operative Rehabilitation.	1939	Hon'ble Mr. Ramdas Pantulu

litation Scheme in Burma. The general method of reconstruction programme was to examine the loans due to primary societies with a view to scaling them down to the repaying capacity of of the borrowers, taking into consideration the value of their assets and to make the reduced amounts repayable in easy instalments within a number of years not exceeding 20. The lands that had come into the possession of societies in default of payment

of dues were to be returned to the borrowers on the hire purchase system. The amount of the debt having been scaled down and instalments for repayment having been fixed, the land of the borrower, if it was not already transferred to the society, was to be so tranferred. The instalments of the loans fixed under the scheme were to be reckoned as instalments of the hire purchase of the land and the land was to be retransferred to the original borrower on payment of the final instalment plus a nominal amount of purchase-money. Under an alternative plan the society was to be a mortgagee of the borrower's land and the mortgage was to be extinguished when all the instalments of the scaled down debt were paid off. The societies were to write off bad debts from their owned funds, viz., paid-up share capital and reserves, and if after making detailed enquires it was found that their realizable assets fell short of their liabilities, the financing agencies were to be called upon to reduce their claims proportionately. Those societies the affairs of which had already been wound up were to be dissolved speedily. Detailed investigations were to be undertaken with regard to the assets of the central banks, such as loans due from members and other investments. Bad debts and other losses, if any, were to be written off from their owned funds as in the case of primary societies. If after making detailed enquiries, it was discovered that their realizable assets were found to be less than their liabilities, the banks were to approach their creditors with a request for reduction of their claims proportionately. In this way the claims of creditors were reduced in C. P. and Berar. But in Bengal they were to be paid in debentures floated afresh. In Bihar the claims were to be partly liquidated in cash and partly converted into deposits and partly written off. An essential feature of the Rehabilitation Programme was the supply of fresh finance in kind to the members of reconstructed societies who were retained on the rolls for meeting cultivation and other necessary expenses. Provision to this effect was made and the Provincial Government agreed and came forward to extend the necessary assistance to the apex banks. A large number of crop-loan societies were thus started in Bengal and Berar to help the agriculturists to obtain finance for their agricultural operations, as the existing societies were burdened

with frozen assets and were unable in consequence to make fresh finance for the purpose.

26. Government Assistance to Central and Provincial Banks:- For meeting the losses incurred in financing the Jute Sale Societies in Bengal, the Government sanctioned a grant of Rs.24 lakhs to the Provincial Co-operative Bank. The amount was, however, to be distributed at the rate of Rs.2 lakhs per annum for a period of 12 years. Similarly, the Bihar Provincial Co-operative Bank received from the Government loans at low rates of interest for enabling it to maintain its fluid resources and to make advances to sugar-cane growers' societies. The Government further agreed to give as a contribution for meeting the losses incurred by the central banks a total subsidy of Rs.12 lakhs and it also further agreed to grant long-term loans through the Apex Bank to the reconstructed central banks up to a limit of Rs.14 lakhs for partially meeting the claims of creditors. It further agreed, besides, to bear the entire loss to the Provincial Bank which under the Reconstruction Scheme, was estimated at Rs. 18 lakhs. The Government gave a subsidy of Rs.1 lakh annually to meet the cost of management of central banks in addition to bearing the entire cost of audit as well as the cost of the Banking Adviser for five years. In C.P. and Berar the Government agreed to guaranteeinterest to the depositors of central banks on the reduced amounts as well as to grant a subsidy of Rs. 1 lakh for a period of three years for meeting the deficit of the cost of management of banks. In Mysore the Governemnt gave a cash credit of Rs. 5 lakhs to the Provincial Bank to tide over its difficulties and in Hyderabad the Government of H. E. H. the Nizam made a loan of Rs. 15 lakhs partly free of interest and partly at 3%-to assist the co-operative movement in the process of finding its feet.

27. Reorganization of Primary Societies.:-These measures of reorganization were, however felt to be indequate by themselves so as to put the movement on a sound basis and co-operators both official and no-official-began to search for the root causes for the deterioration that had set in. It was a welcome sign, therefore, that a spirit of enquiry grew into some of the well-accepted practices relating to the organization of soci-

eties and of the co-operative structure such as the basis of the liability, the area of operation of a primary society and its scope of activities, the system of supervision, the relation of central banks to co-operative societies and of the Provincial Bank to Central Banks. The Madras Committee on Co-operation, otherwise known as the vijayaraghavacharyar Committee, which has already been alluded to earlier, considered the issue of unlimited versus limited libability. It was divided on the question, the the majority favouring the limited liability of a primary credit society and the minority sticking to the principle of unlimited liability. Arguments were adduced on both sides and the views of the minority were also endorsed by the Agricultural Credit Department of the Reserve Bank of India, which had held that unlimited liability was a matter of necessity and not of choice. The Thirteenth Conference of Registrars, with Sir Malcolm Darling in the chair, passed a resolution to the effect that agricultural credit societies should ordinarily continue to have unlimited liability but scope may be given for experiments with such societies with limited liability . On the question of appropriate area of operation of a primary society, the Committee recommended that small societies might be grouped together and reorganized so as to extend their area of operation to more than one village. The question of the scope of activities or functions of village credit societies also recived a good deal of attention of the Committee, and the Reserve Bank had already recommended that the existing societies in order to be of geniune and lasting benefit to the cultivators should be converted into multi-purpose societies, so as to make such societies a hub of activities of the whole village life. It was recommended that they should be an influence for an all-sided development of agriculture and betterment of the cultivator from every point of view, as they were intended to bring his whole life within their ambit. These views led to an acute controversy at the time of their publication, and there was also a divergence of opinion on the question among co-operators, though the multi-purpose idea grew gradually and has now been universally accepted in India.

28. **Reorganization of Central Banks:**--If the village credit societies were to undertake multi-purpose activities, it was felt

necessary to have a financing agency at their door of such size as would enable it to maintain close supervision over the affairs of the constituent societies and guide them in all matters affecting their general welfare. That is how the Reserve Bank had suggested the formation of a Banking Union extending over the area of a taluq. But the idea was not received with favour among co-operative circles at the time because it was apprehended that such a small financial unit might not be able to work economically nor to associate men of business ability with its management nor to win the requisite confidence of the investing public so as to attract adequate amounts of deposits. It was also felt that if the central banks were to pull their proper weight in the develoment of the movement, they should begin to take more intimate interest in the working of societies affiliated to them, supervise and guide their operations and educate their members in the principles of co-operation and generally assist them in improving their working. If the central banks came forward to assist the primaries in this way, it was thought it would be possible for the primary units to perform satisfactorily their function of raising the moral and the material standard of their members. The reorganized societies might expect the central banks to help them in such matters as the purchase of their members' requisites and sale of their produce. The central banks also should follow sound criteria of banking as laid down from time to time by the Reserve Bank with particular reference to the distribution of assets so as to maintain an adequate standard of cash and fluid resources, adequate margin between lending and borrowing rates so as to build up strong reserves, and to have proper treatment of unrecovered interest on loans, and undertake proper scrutiny of bad and doubtful debts and to make adequate provision therefor. It was further felt necessary that they should restrict generally to short-term loans, separately indicating long-term loans and over-dues of principal and interest in their balance sheets. The Thirteenth Conference of Registrars suggested certain improvements in the working of central banks, most important of which was with regard to the building up of statutory reserve funds out of their realized profits, and the investment of such reserves in unencumbered Trustee Securities other than mortgages, approved by the Registrar.

29. Role of Provincial Banks.:-Similarly, it was thought necessary that the Provincial or the Apex Bank should co-ordinate the working of central and urban banks in a province in such matters as the fixation of borrowing and lending rates, rates of inland exchange, besides advising the Banks freely in regard to the efficient conduct of their business. The Provincial Bank was also expected to guide, supervise and exercise control over the financial policy of central banks. For this purpose all co-operative banks were required to send a monthly statement of their financial position to the Provincial Bank which might also act as an investment agency for the affiliated central banks. The Provincial Bank was also to be given the right to inspect central banks and to bring to the notice of the Registrar, Co-operative Societies, any serious defects in their working.

30. Co-operative Banks' Association in Bombay.:-In order to co-ordinate the activities of central and urban co-operative banks especially in the matter of maintennance of fluid resources, fixation of borrowing and lending rates, arrangements for inter-bank remittance of funds and development of banking business on sound lines in the Province, the Co-operative Banks' Association was started in Bombay in 1940. It is an institution which is representative of both the central and urban banks in the Province. It is doing very useful service in the field of co-operative banking in the State.

31. The Co-operative Movement and the World War II.:- The period from 1938-39 to 1945-46 was a period of intense warfare when every type of economic activity underwent an unprecedented change. These were the years during which the full impact of the war made itself felt on Indian economy. Broadly speaking, there was a growing demand for all commodities but the supply was inadequate to meet the demand. As a result, there was a continuous rise in the price of commodites which were in short supply. With the spurt in the prices of agricultural commodities the money income of the agriculturists increased as also their paying capacity. This factor had the effect of reducing the importance which credit played in the life of the agriculturist. Simultaneously also owing to short supply and black-marketing practis-

ed on a large scale in almost all commodities, the prices of necessaries of life together with those of agricultural requisites needed for production rose to a great extent. Nor was the agriculturist alone who suffered as a result of short supply and blackmar keting. The ordinary citizen also felt the pinch and the situation could brook no delay for its solution. It was this factor which was responsible for bringing about a change in the very course of the of the co-operative movement by making it broad-based. The greatest contribution made to the co-operative movement lay in the shift in the emphasis from its credit aspect to its productive and distributive functions, i. e. from its lop-sidedness to its multi-purpose potentialities. The most noteworhy development that occurred was in regard to the co-operative consumers' movement and it showed itself in a most marked degree in the State of Madras. Many credit and sale societies took up the work of supplying consumer-goods in addition to their normal activities. The development that took place during this period was certainly abnormal and could only be attributed to the conditions created as a result of the War. The need for satisfying the demand for consumer goods of the civil as well as the military population was responsible for the creation of the new types of societies and a substantial growth in the existing ones. There was in consequence a great increase both in the number and volume of business of societies like milk supply societies, canegrowers, societies, fruit-growers' societies, weavers' societies and other industrial co-operatives during the period. Along with these developments in the non-credit sector, the overall position of the movement showed also improvement and there was an appreciable increase in the number, working capital and membership of societies.

32. Agricultural Credit and Marketing Societies etc.:-The The War years witnessed in general a considerable improvement in the financial position of agricultural credit societies, though such improvement was not uniform in all the provinces. The position with regard to overdues which had continued to be an unsatisfacory feature of the working of the co-operative movement during the period of depression showed a distinct improvement; with the rise in agricultural incomes, the repaying capacity of the borrowers also increased and co-operative loans became

more fluid than before. Out of the larger incomes overdues to societies came to be rapidly repaid. Agriculturists who wanted to borrow could get loans at low rates of interest, as ample funds were available with bigger landlords or other private money-lenders. The substantial repayments of loans without corresponding amounts of fresh finance resulted in large funds lying idle with co-operative societies, which had perforce to seek new outlets which they found in the finance of non-credit activities such as marketing and supply of consumer goods. Though War gave a great stimulus to agricultural credit societies on the whole, the position was different with marketing co-operatives which necessarily lost their legitimate business under a regime with controlled prices, compulsory procurement of foodgrains and ready market provided at the very door of the agriculturists. But as if to compensate for the loss of business, they were granted licences for the distribution of controlled commodities and had thus to take up the role of supply societies. The picture with regard to land mortgage banks as well was no better. They were rendered more or less functionless, as there was no demand for the supply of long-term funds for debt redemption. On the contrary, they were faced with the problem of how to deal with the advance repayments of loans made by their borrowers. Conditions arising out of the War gave, however, the urban co-operative moment an alround stimulus. There was a large increase in membership and deposits of the urban credit institutions due to a rise in money-incomes of several classes of people in the urban area. Remarkable expansion was also noticed as already mentioned in the consumers' movement, because of the war-time scarcity of the consumer goods and the Government policy of controls and rationing, in the carrying out of which the Co-operative Stores were greatly availed of. Further, the operation of the industrial co-operatives was also greatly facilitated by the placing of large War orders for the supply of goods produced by small-scale industries. As has already been mentioned, profiteering and black-marketing were practised on a large scale, by private traders and distribution of essential consumer goods such as foodstuffs, mill cloth, kerosene, matches, sugar drugs and agricultural requisites like manure, seed, implements, cart-tyres and yarn to weavers came to be entrusted more and more to co-operative societies

during the period. There was a setback in the case of housing societies as they were not in a position to carry on their normal business due to acute shortageof building materials and scarcity of labour and the policy of restriction followed by Governments in the financing of this type of societies.

33. Central Financing Agencies.:-The effect of the War on central financing agencies was healthy, and their financial position improved. They were able to stand erect again from the tottering position in which they had found themselves during the period of depression. There was a considerable increase in deposists and working capital of central co-operative banks. Their overdues position also showed substantial improvement. But the outstandings against agricultural societies went down con- siderably during this period. This was attributable to the fact that due to rise in agricultural prices, repayments from primary credit societies were satisfactory to such an extent that they were in excess of fresh finance made. Thus the Banks found them- selves in possession of idle funds, which in part found an out- let in the finance made to various non-credit organizations which had come into prominece during the period. Perhaps in no other category of co-operatives was the problem of idle surpluses so apparent as in the case of State co-operative Banks. There was a heavy influx of deposits due to the uncertainty of the War sit- uation which contributed to a large increase in the working capital of the Banks. Because of liquidation of all fresh finance, the posi- tion in respect of loans outstanding with societies remained practi- cally stagnant and the swollen idle surpluses had to be invest- ed in Government and other Securities. This led to a rise in the amount of net profits earned by the Banks during the period. In short, the tendency in the credit sector during the War period was for a substantial decrease in the outstanding debts and a decline in overdues, accumulation of idle funds with the Distriict Central and Provincial Banks and a fall in demand for fresh finance and an appreciable amount of advance repayments in the case of land mortgage banks. These trends were however, fortunately reversed during the succeeding period. There was a tendency for fresh borrowings as well as for outstandings to increase with the result that the supply of loanable funds with the co-operative

banks and societies fell short of the demands made on them. This tendency is partly explained by the curtailment of the activities of moneylenders following the legislations passed to control their activities and partly to the larger requirements of working capital brought about by rising wages and other costs. The increased demand on Provincial Banks or State Co-operative Banks for funds was met out of increased borrowings from the Reserve Bank, the Governments and the Commericial Banks.

34. **The Agricultural Finance Sub-Committee.**:-In accordance with the recommendation No. IV-A of the Policy Committee on Agriculture, Forestry and Fisheries, the Government of India, in the Department of Education, Health and Lands, appointed in 1944 an oight-man Committee under prof D. R. Gadgil, Director of Gokhale Institute of Politics and Economics, Poona,, as its Chairman to report on the ways in which indebtedness could be reduced and finance, both short-term and long-term, provided under efficient control for agriculture and animal husbandry operations. The Committee was directed to submit its report within three months, and in view of the shortness of time, was asked to work on the basis of data already available. The Committee submitted a comprehensive report in 1945 and made many useful recommendations in regard to the terms of reference. The Committee observed that the spread of Co-operation would provide the best and the most lasting solution not only for the problem of agricultural credit but also for most of the problems of rural economy facing the country. The Gadgil Committee endorsed the view that the adjustment and liquidation of old debts was an essential preliminary to the reorganization of rural credit on a satisfactory basis, and that the adjustment and liquidation should be done within a period of three years on the lines adopted in the Bombay Agricultural Debtors Relief Act. This Act provides for the compulsory scaling down of debts of the majority of the agriculturists and paying them off by transfer to land mortgage banks or to an Agricultural Credit Corporation. The Committee were aware of the possible difficulties arisingout of such a procedure when they observed: " The agriculturist may find it hard to obtain loans for current needs during the transitional period and this may have serious repercussions on the agricultural economy

of the country and may create difficuties even in the introduction of the scheme." That is why the Committee recommended that "the adjustment of debt should invariably sycohronize with and be accompanied in every region by the provision of agencies of credit alternative to the private creditor and by the regulation of the operations of the private agencies." The Committee further thought that on theoretical grounds a single financial agency which covered the entire period of all credit to the agriculturist-producer would be the most logical solution of the problem, but in view of the practical limitations implied in the vast extent of the country and the large variety of conditions within it, it simply recommended that attempts should be made to develop as varied a system of institutional finance as possible for financing agriculture. The Gadgil Committee considered that co-operative societies are the ideal agency for rural credit but found that in acutal practice their working in several cases was defective and that they covered a small proportion of rural people and met only a fraction of credit requirements. Except in a few regions, their working was found to be not very satisfactory. In its opinion, therefore, the extension of co-operative credit to meet all the requirements of creditworthy agriculturists all over the country within a short period of time was impracticable without a very large degree of State assistance and control which would surely affect its democratic co-operative character. It would also be difficult to link the co-operative movement with non-members. For these reasons the Committee recommended the establishment of an Agricultural Credit Corporation for each province except where the Government felt that the co-operative financing agencies were strong and had such wide scope that they could undertake all the work expected from the Agruicultural Credit Corporation. The proposed Agricultural Credit Coroprations were to be autonomous institutions, 50 per cent of the capital being provided by the State and the balance by Joint stock Banks, Co-operative Institutions, Marketing Institutions, there being no individual shareholders. They were expected to establish agencies and branches all over the regions, wherever needed, and supply all types of credit and be managed by executive officers. They would provide finance to co-operative societies where central financing agencies did not exist andsupply mortgage credit also directly to individual agri-

culturists. But intermediate and short term credit based generally on personal security or statutory first charge on the crop could only be provided through co-operative societies or other borrowers' groups. The rates of interest charged by the Corporations were not to exceed 4% for mortgage and 6¼% for other types of credit. The State was expected to subsidize the Corporations to enable them to supply credit at the rates mentioned and to maintain uneconomic agencies in certain areas. The activities of the Corporations would be coordinated with those of co-operative and other institutions and competition avoided. The Gadgil Committee were, however, unable to estimate the exact financial requirements to establish and run the Corporations for any region.

The proposal of the Gadgil Committee was not viewed with favour by co-operators in the country on the ground that the co-operative financing agencies such as the Provincial and Central Banks could equally meet the requirements if they were given financial resources and assistance contemplated for the Corporations as they had already established themselves and had some organizations in the field. It was argued that the Co-operative Banks could draw also to a considerable extent on the services of honorary public workers and had in addition been able to attract considerable funds through deposits, while the feasibility of raising funds required for the Agricultural Credit Corporations in the manner suggested by the Gadgil Committee was doubtful. The co-operative workers particularly disapproved of two alternative credit agencies working in the same field with State support and assistance and believed that the effect of such competition was detrimental to the interests of the co-operative organizations. Moreover, even if the new Corporations could be set up, except for well-to-do individuals who might be able to deal directly with them, primary organizations would have to be co-operative societies or similar borrowers' groups. In view of these factors, the co-operative Plannig Committee expressed the opinion that "Not only in some provinces where the co-operative movement has attained a high degree of development, but also in other provinces and states the Provincial Co-operative Bank or the Central Co-operative Financing Organizahions can provide the agriculturist with all the facilities which are intended to be given

by the Agricultural Credit Corporations. The same measure and type of aids as those recommended to be given to the Agricultural Credit Corporations should be given to the Provincial Co-operative Banks and there should then be no need to start a separate organization for the purpose. In view of these considered views of co-operators it was apparent that there was a general preference for the reorgainization of co-operative banks, where-ever necessary, and for their expansion and development rather than for establishment of new agricultural credit corporations. The provision of such assistance and the reorganization of the co-operative credit structure so as to function as effectively as a Credit Corporation were accepted as unobjectionable by co-operators and by several Provincial Governments, as may be seen from the experience of Bombay and few a other Provinces. In Bombay, following the recommendations of the Nanavati Committee, which was appointed to examine the proposals of the Gadgil Committee, the Government of Bombay took the following steps

(*a*) The constitution of the Bombay Provincial Co-operative Bank was amended, providing for subscription to its share capital by the Provincial Government to a substantial extent and representation on its Board of Directors by three nominees of the Government.

(b) In order that the Provincial Bank and its branches and the central co-operative banks and banking unions should function as an integrated credit system, provision was made for the Provincial Bank to subscribe to the share capital of the central banks and to inspect and to supervise their working. The Provinical Government agreed to contribute to the Provinical Bank a sum equal to the amount contributed by the Bank to the share capital of central banks, subject to a maximum of Rs. 25 lakhs.

(c) To enable the Provincial Bank or the central banks to open branches at all places necessary to provide credit facilities to all creditworthy borrowers and adjusted debtors, Government agreed to subsidise for an initial period of three years,

" uneconomic " branches opened with their approval to the extent of the actual deficit of the branch in any particular year, subject to a maximum varying from Rs.2500 to Rs. 5000 per annum, the actual limit being dependent on the total volume of agricultural loan business transacted by the branch during the year.

(d) Provision was made to disburse loans to individual borrowers who may not be members of primary credit or multi-purpose societies, directly by the banks.

(e) The extension of co-operative credit, or multi-purpose, societies in large numbers was taken in hand, and Government agreed to subsidize multi-purpose societies during an initial period, on a gradually diminishing scale.

(f) Government also agreed to guarantee the losses of financing banks and societies to the extent of 5 per cent. of the total crop finance advanced by them."

35. The Co-operative Planning Committee or otherwise known as "Saraiya Committee".—In accordance with the recommendation made in a Resolution passed by the Fourteenth Conference of Registrars of Co-operative Societies (1944) the Government of India in the Department of Education, Health and Lands, appointed in 1945 a twelve-man Committee under Mr. R. G. Saraiya, the Chairman, Bombay Provincial Co-operative Bank, as its Chairman, its terms of reference being " to draw up a plan of co-operative development ". The Committee was not expected to undertake any elaborate enquiries about the working of the co-operative movement in the past, as it was required to complete its work within as short a time as possible. It submitted a comprehensive report in 1946 dealing with all aspects of development of different types of co-operative institutions and emphasised that more financial assistance should be made available to the movement than had been done in the past. The central recommendation of this Committee was that as the supply of credit was only one aspect of the life of the agriculturist, the activities of the primary village credit societies should be so diversified as to cover the whole of his life and that the societies should

be revitalized and reformed so as to serve as centres for the general uplift of the members. The Committee further recommended that attempts should be made to bring 50% of the villages and 30% of rural population within the ambit of the reorganized societies during a period of ten years in two Five-year Periods. It also made many useful recommendations in other spheres of co-operative activity such as marketing, processing, insurance, housing, animal husbandry and industrial development and recommended that suitable targets should be achieved in each sphere within a period of ten years. For example, in the sphere of co-operative marketing the Committee recommended that an attempt should be made to market within ten years 25 per cent of the total annual marketable surplus of agricultural produce through co-operative organizations. For this purpose the Committee recommend3ed that 2000 primary marketing co-operatives, 11 State Marketing Co-operatives and an All-India Marketing Association should be established. The Committee favoured the development of the co-operative movement on a planned basis. The Fifteenth Conference of Registrars of Co-operative Societies held in Madras in 1947 considered the important recommendations of both the Gadgil Committee and the Co-operative Planning Committee. The Conference did not favour the proposal of the Gadgil Committee for the establishment of Agricultural Corporations but recommended that functions proposed for the Corporations should be performed by the Provinical Co-operative Banks which might be reorganized for the purpose, if necessary, and that they should be given the same measure and type of assistance by the State Governments as those recommended by the Gadgil Committee for the Corporations. As regards the recommendations of the Co-operative Planning Committee, the Conference approved of most of them, but considered that the targets of development recommended by the Committee were to be regarded as a minimum to be aimed at, the ultimate objective of co-operative institutions being to bring all the villages and the cent per cent. population in the villages within the operation of reorganized primary societies. In regard to the marketing co-operatives, the Conference emphasised the fact that as the prosperity of the agricultural community depends largely on the efficient

marketing of agricultural produce in all schemes of rural reconreconstruction, Central, Provincial and State Governments should give top priority to the development of co-operative marketing by (1) effectively linking credit with marketing, (2) making necessary funds and land available and by granting subsidies for the construction of godowns and by installation of processing plants, (3) facilitating the training of their staff, and (4) by providing an expert staff whenever necessary and utilising the marketing organizations in all their schemes of procurement and distribution. The Conference also recommended that inter-provinicial co-operative marketing should be promoted.

36. Co-operation and Economic Programme Committee of of the Indian National Congress:—The Economic Programme Committee appointed by the All-India Congress Committee submitted its report to the President, a gist of which was published in the year 1948. The Committee favoured the economic decentralization with a view to maintain proper balance between rural and urban economy. The plan of development visualized by the Committee aimed at a progressive realization of a rise in the standard of living of the people by expanding the volume of production and equitable distribution of existing income and wealth along with the widest diffusion of opportunities. In order to achieve the aim in view the Committee gave a very important place to co-operative organizations in industrial and agricultural sectors from the production stage to the ultimate stage of consumption. Among the important recommendations of the Committee placing emphasis on co-operative effort, so far as agriculture is concerned, mention may be made of those advocating co-operative farming, the organization of co-operative colonies on Government unoccupied but cultivable lands, the formation of multi-purpose societies and their unions for credit and the establishment of Agricultural Finance Corporation operating through co-operative societies and village panchayats with well-defined powers and adequate financial re--sources and machinery for conciliation between landless and landholding peasants. In the industrial sector, besides advocating the establishment of co-operatives for running smallscale and cottage industries, the Committee recommended the market-

ing of their products through co-operative consumers, societies in order to have a balanced progressive economy in the country. As regards industrial co-operatives, for the promotion of small-scale and cottage industries, the Committee further recommended a strong federal structure consisting of primary societies, their regional unions and apex institutions. The central recommendation of the Committee was with regard to the appointment of a Central Planning Commission to advise and assist the Congress Governments in implementing the programme of economic development.

37. **Place of Co-operation in the FiveFirst-Year Plan.**—In the Constitution framed by the Constituent Assembly of India and and brought into force on 26th January 1950, India was declared, to be a Sovereign Democratic Republic. The declared object of the Republic is to bring about an economic democracy. In implementing this into practice, certain directive important principles have been incorporated in the Constitution, placing before the Government the high ideal of economic democracy, for the realization of which "it will strive to promote the welfare of the people by securing and protecting as effectively as it may, a social order in which justice, social, economic and political, shall inform all the institutions of national life." The State is further enjoined to guard against the concentration of wealth in a few hands and to ensure fair distribution of the country's resources among the masses. This is so because after the World War II, the State has come to be recognized everywhere as a regulator of the economic life of the people. It is further increasingly realized that the State must have duties of defence other than the provision of army, navy and police and it must enforce right against might, protect the weak against the strong and prevent the exploitation of the weak by the rich. The Governmental machinery has been harnessed more freely in carrying out the proper allocation of the resources of the community and in bringing about an equitable distribution in a variety of ways. State regulation has now been extended to cover every aspect of economic life, provided it leads directly or indirectly to the benefit of the community. The considerations of defence, rehabilitation, social justice and security that uphold the policy of econo-

mic planning elsewhere are equally valid in this country. In addition, there is also the further need to accelerate the process of transforming a static economy of land and labour into a dynamic one of land, labour and capital. An economic and social revolution has to be brought about within the shortest period of time, so as to achieve the maximum results at the minimum cost. This task has now been entrusted by the Union Government to the Planning Committee which was called into being in 1950 with a view to assessing the resources of the country for their proper utilization and for the purpose of raising the standard of living of the masses. When one thinks of national planning, one has to take note of the kind of social order that is intended to be established. In preparing a plan of development, the first question that comes to one's mind is that which relates to the ends of planning and the means that are to be employed to acheive the same. The First Five-year Plan attempts to answer this question. The Plan sets in motion a process of transformation, the purpose of which is to create a society in which wealth and opportunity are to be widely shared The Planning Commission observes in Chapter III of their Report regarding Co-operation as follows:—

"As an instrument of democratic planning combining initiative mutual benefit and social purpose, co-operation must be an essential feature of the programme for the implementation of the Five-Year Plan adopted at all levels of administration. As it is, the purpose of the Plan to change the economy of the country from individualistic to co-operative basis, it should be judged among other things by the extent to which it is implemented through co-operative societies." In another place the Commission has stated that "the co-operative form of organization can no longer be treated as only a species within the private sector. It is an indispensable instrument of planned economic action in a democracy." In the organization of economic activity as the Plan proceeds the role of the public sector and of the co-operative sector would increase in the measure in which the State and the Co-operative Movement are able to assume and discharge new responsibilities. The public and the co-operative sectors have a common aim, viz., to ensure that the objectives of national development as well as the agencies through which

development is undertaken subserve the interests of the community as a whole. For democratic living the social and economic disparities should be eliminated. If the community is to grow from within, it is vital that the principles of co-operative organization should have a central place in the national regeneration of our country. The Planning Commission has been guided by this aim in formulating the Five-year Plan. The Plan also lays considerable emphasis on increased agricultural production. This emphasis is even likely to be greater in our future plans. This will be rendered necessary because of our fast growing population. The mere maintenance of current levels of consumpation will necessitate a stepping up of agricultural productivity from 70 million tons in 1951 to 85 million tons in 1961, or an increase of 21% The dynamic programme of agricultural production that will be required to achieve such an increase will not be possible without an equally dynamic programme of agricultural credit. Large holdings in India are relatively few and are likely to be fewer still as a result of the policies of land reform, which Governments have adopted in pursuit of social ends. The medium and small cultivators who now constitute about 70% of the total will become increasingly important as the persons whose needs have to be studied and borne in mind in the formulation of policies of agricultural credit and agricultural development. At the end of the first Five-Year Plan period the crop area is expected to increase by hundred lakhs of acres. But only a small part of this additional cropping will be on reclaimed land. Thus increased production must come for the greater part from holdings already under cultivation. This means more intensive utilization of land by using better seeds, more water, more fertilisers, better implements and better techniques of cultivation. All this will mean a considerable outlay in the shape of finance and effort. Part of the cost will no doubt be borne by the State, but for the rest most of the cultivators have to be assisted with credit to meet the initial and recurring expenditure for land improvement and increased production. This is of course in addition to Rs. 750 crores which the cultivator is borrowing at present annually for short and medium-term loans in order to be able to carry on his productive operations. Thus the Planning Commission has recognized that the future progress of the country de-

pends on the successful development of the co-operative movement. In the Plan, therefore, special provision has been made for financial assistance to agriculturists through co-operatives and for promoting various activities along co-operative lines. The replacement of the landlord, the conferment of security and status upon the tiller of the soil and the elimination of every vestige of exploitation and unfair dealings are accepted as State policies. These policies cannot, however, be fully implemented without the development of co-operative communities, i. e., without re-organizing the social and economic life in the village on a co-operative basis. Unless the resources of each local community are utilized and developed in terms of the needs of all the sections of the community, there can be no true equality of opportunity for those who have for centuries remained disabled and dispossessed. Thus there are many impelling circumstances to justify the reorientation of the existing Society and to bring a new one based on social justice and equality. To the extent that it is possible to achieve this object, it is possible to develop agencies and other occupations so as to afford employment and social amenities in every section in the village community. "This consideration governs the various proposals made in the Five-Year Plan for the development of co-operative farming, co-operative village management, village labour co-operatives, landless workers' colonies, industrial co-operatives etc. The rural extension services established over a third of the country provide the agency through which the State can assist rural people in re-organizing their social and economic life in a co-operative mould. Community development projects also are viewed as a method of integrated development, the essence of which consists in the growth of co-operative institutions and of that quality of self-help and self-reliance which alone can ensure continuity of endeavour. It may be noted that the first Five-Year Plan has become the national plan of India, which it is the duty of every organization to implement. The Plan accepts Co-operation as an instrument which, while retaining some of the advantage of decentralization and local initiative, will yet serve willingly and readily the overall purpose of the Plan. The co-operative form of organization has been universally accepted as an indispensable instrument of planned economic action in a democra cy.

From what is stated above, it is clear as to what vital role Co-operation is expected by the Planning Commission to play in our national economy. While the facts stated indicate the importance of co-operation and its method and ideology, it is also necessary to bear in mind the heavy responsibility that the co-operative movement has to bear for the implementation of the Plan.

38. **More recent Trends of Co-operative Thought :—The All-India Rural Credit Survey Report :—**The post-Independence period of ten years commencing from 1947 and onwards may be regarded as a period of planned development of the co-operative movement in India. This period is packed with events of great social and economic significance to our country. An outstanding event during the period, apart from the inauguration and implementation of the first Five-year Plan and putting into operation of the second Five-Year Plan which have assured an allsided economic development of the country on a planned basis, is the publication of the Report of the All India Rural Credit Survey Committee. The Committee consisted of well-known economists and administrators and was presided over by Mr. A. D. Gorwala, I. C. S., (retired). The Committee was appointed on the recommendation of an informal Conference of co-operators, economists and administrators, convened by the Reserve Bank of India in 1951. It published a comprehensive Report in 1954 in three volumes, and the General Report in volume one contains detailed exposition of the problem of rural credit and contains the Committee's recommendations on the problem investigated... In the General Report the Committee observes that agricultural credit as supplied by several agencies referred to therein, including the co-operative, falls short of the right quantity, is not of the right type by the criterion of need, often fails to go to the right people. Rural credit, the Committee states, must be directed principally towards improved productivity. It must answer the long, medium as well as the short-term needs of agriculture and it must be supervised. It must also be available to all who are creditworthy and at a moderate rate of interest. In Indian conditions, according to the views of the Committee, it means reaching down to an enormous number of small farmers, making advances against credit instruments and securties they can offer and

keeping an effective control over the use to which the credit is put. In the opinion of the Committee, obviously in the village itself no form of credit organization will be suitable except the society. Private credit, the Committee adds, generally unsuitable is wholly unsuitable in the context of planning for larger production, and institutional credit, which in broad terms is the only alternative, tends more than ever to confine itself to the bigger cultivators if it is not channelled through some co-operative form of association within the rural unit of operation. Since the Central Banking Enquiry Committee reported in 1931, no more comprehensive survery of rural credit has been undertaken in the country. The picture of the existing position in regard to supply of agricultural credit by the co-operative movement and Governments is unflattering. In spite of the united efforts of both, they have been able to cover only 6.7 per cent. of the total credit needs of the agriculturists. Even this small portion of credit is unevenly distributed both as between different States as well as among the members of the same society. In the main, the requirements of small and medium cultivators have gone unattended in preference to the needs of substantial cultivators. The Committee have found that the small primary society with slender resources and untrained personnel has been functioning with a very low level of technical and economic efficiency. The financing agencies at the district and State levels have neither the funds nor the capacity to enforce a vigorous credit policy in keeping with the requirements of an expanding economy. Many of the societies are either dormant or have tried to restrict their their lendings on the security of land to persons owning land instead of utilizing credit as a powerful instrument for increasing production. Results of this policy have been, in the opinion of Committee, laxity in supervision on the part of the lender and improvident use of funds by the borrower. In the sphere of marketing, processing and other economic activities, the role of co-operatives has been found to be even less significant. Thus the Committeee has concluded that the co-operative movement as a force in the economic and social life of the community has failed and in the manner in which it is now organized and conducted, it has no chance of making much headway in the light of the complexity and magnitude of the problem involved. But at the same time

the Committee has expressed its firm conviction that there is eventually no effective alternative to the co-operative form of organization at any rate at the village level and for dealing direct with the cultivators.

Having regard to the magnitude of the task involved, the competition of the powerful vested interests long entrenched in the field of rural credit and the speed with which institutional agencies have to be created to meet the needs of the Plan, the Survey Committee has made out a strong plea for State partnership in co-operative institutions at all levels. This has meant contribution of share capital to co-operative institutions. Such participation is expected to impart to the co-operative movement the strength which it is lacking today. Another major principle of reorganization of rural credit suggested is to lay the emphasis on crop loans in the case of primary credit societies and productive loans in the case of land mortagage banks. At the base the primaries will be provided with a stronger capital structure, will have a wider area of jurisdiction and membership. Every person who grows a crop will be eligible to become a member and entitled to get credit from the society. Recognizing the intimate connection between agricultural credit on the one hand and other economic activities on the other such as marketing, warehousing and processing, the Survey Committee has recommended a large-scale expansion of co-operative marketing and processing institutions. These will get a high prority as part of in Integrated programme of increasing the income of the farmer and the State will be an active financial partner in both forms of activity. A network of warehouses and godowns, according to the plan suggested with co-operatives functioning at the base would help the development of orderly marketing of agricultural produce and draw funds into rural areas through negotiable credit instruments. Further, the establishment of the State Bank of India as a State partnered institution, with a network of branches in rural areas, has been proposed by the Survey Committee in order to better serve the rural areas with remittance and other facilities and the co-operative banks also would stand to benefit by this institution in that it would better serve their needs as well. Again, the extension of nationwide facilities for the training of co-oper-

 COOP18

ative personnel at all levels has also been put forward and lastly, in order to provide funds for the pursuit and implementation of policies recommended in the Report, appropriate national funds in the Reserve Bank of India and the Government of India will be set up. Thus in the Reserve Bank of India there would be two funds :(a) the National Agricultural Credit, (Long-term operations Fund), (b) the National Agricultural Credit (Stabilization Fund). In the Government of India there would be three funds constituted as follows :—

(c) The National Warehousing and Development Fund,

(d) The National Co-operative Development Fund,

(e) The National Agricultural Credit (Relief and Guarantee) Fund. The first two funds are to be set up under a national Co-operative Warehousing Development Board. These recommendation are of a far-reaching character and visualize financial aid from the Reserve Bank for the cooperative credit structure and from the Government for the co-operative non-credit structure. The two structures are to work hand-in-hand in an integrated scheme of credit and marketing. Thus the combined strength of the Union Government, the State Governments and the Reserve Bank of India is expected to lend strength and stabilize the entire co-operative movement in the country for the well-being of agriculturists. Thus for the first time the resposibility of the State for all-sided co-operative development will not be merely vicarious but direct and substantial as major partner in a joint enterprise. These recommendations have already been accepted by the Government of India and State Goveerments and are in process of implementation also. For example, steps have already been taken for the establishment of the State Bank of India and of the National Development and Warehousing Board. Amendments to the various relevant provisions of the Reserve Bank of Inida Act have been effected with a view to enabling the creation of funds to be set up in the Reserve Bank of india. Plans also for the development of the co-operative movement during the second Five-Year Plan have also been drawn up by all the States which will be noticed hereafter.

39. Role of the Reserve Bank in the Scheme of Reorganized Credit and Marketing :—In the programme of reorganization and development of agricultural credit visualized and recommended by the Survey Committee, the role of the Reserve Bank as one of the major partners, is no less significant. Three broad prin ciples stand out as underlying the contemplated reorganization of the credit structure. In the first place, the existing pyramidal structure of the co-operative agricultural credit movement with primaries at the base, the district central banks in the middle and apex institutions at the top would continue to remain as it is. Secondly, institutions at each level would be strengthened in respect of finance as well as organization through internal re-form and external aid from the State and the Reserve Bank. Lastly, adequate trained personnel would be provided to co-operative institutions for which their services are needed. In accordance with these principles, according to the account given by the Re-serve Bank itself in the review of the Co-operative movement, the Reserve Bank has initiated a series of measures in regard to the provision of rural finance. These measures were intended, firstly, to improve the effectiveness of its role within the existing framework of agricultural credit, secondly, to enlarge the existing machinery of rural credit to the extent possible, and thirdly to design a new frame work in the light of facts revealed. In the first category of measures fall those taken by the Bank to enable the co-operative banks to make a larger and a freer use of the finan-cial accommodation which the Bank was willing to provide for agricultural operations in the marketing of crops. These measures consisted partly of amendments to the Reserve Bank of India Act and partly of prodcedural reforms. Amendments were also initiated for the inclusion of mixed farming and prcessing of crops by agricultural producers among the the purposes for which the Bank would provide short-term finance for the extension of short-term credit for production and market-ing to industrial co-operatives and for the grant of medium-term agricultural credit for periods not being less than 15 months and not exceeding five years. Under the second category of measures may be mentioned the agreed plans for the reorganization and development of the co-operative credit structure in various states, as a result of studies carried out on the spot by the officers of the

Reserve Bank with respect to the condition of the co-operative movement in those States. The rural credit survey was undertaken for the provision of rural credit in pursuance of the third objective mentioned above. Among other steps taken by the Reserve Bank for helping rural credit mention may be made of the maintenance of the Reserve Bank's lending rate to cooperative apex Banks for seasonal agricultural operations and marketing crops at $1\frac{1}{2}\%$ and the provision of liberal remittance facilities.

40. **Provision of Trained Personnel**:—With the increase in the number of societies, volume of their business and also their diversified activities, the growing needs of the co-operative movement for trained personnel cannot obviously be met without outside help which has to come from the Reserve Bank and the State. A Central Committee for Co-operative Training has, therefore, been set up jointly by the Reserve Bank of India and the Government of India. Training facilities have been expanded and the Reserve Bank has helped in starting at Poona the courses for training the higher and interdmediate co-operative personnel. Four more regional centres have also been opened in different parts of the country. The Government of India also set apart Rs. 10 lakhs for co-operative education and training in the First Five-Year Plan period in order to get the existing and the prospective staff trained in co-operative ideals and methods. Attention is also to to be given to the training of non-official workers in the movement. The Central Committee for Co-operative Training and Education is expected, in collaboration with State Governments and the Co-operative Movement, to provide adequate facilities for training co-operative workers in adequate numbers for advancing the cause of co-operation.

41. **Implications of State Partnership**:—More recently a Meeting consisting of economists of repute and prominent co-operators was called by the Reserve Bank of India to consider the implications of State partnership and to allay the apprehensions in the minds of co-operators that State partnership might lead to interference with the day-to day working of the co-operative movement;

It was also attended by members of the Standing Advisory Committee of the Reserve Bank on Agricultural Credit and also by representatives of some Departments of the Government of India. The authorities of the Reserve Bank of India issued a Press Note after the conclusion of the deliberations of the Meeting in the following words:—

"The Meeting was emphatically of the view that co-operative endeavour and planned development should go hand in hand and that a major objective of policy should be the creation of conditions in which speedy progress on this basis would be rendered possible. It followed that the lines of future development in rural credit should be State-cum-Co-operative, as in the programme recommended by the Rural Credit Survey Committee, and not more or less bureaucratic as in the suggestions to establish agricultural credit co-operatives. After careful consideration of the implications of the concept of State partnership the meeting endorsed the recommendation that such partnership should be adopted as a principle of reorganization at dififerent levels of the co-operative structure, apex, district and primary. The State should assume much larger responsibility than hitherto in the provision of funds for co-opera tives as also take greater initiative in promoting the establishment, development and technical efficiency of co-operative organizations, of the desired type. While this no doubt implied that the State should have in reserve such minimum powers as were necessary to ensure adherence to the basic objectives of policy, it was at the same time imperative that there should be no interference by Government in the day-to-day working of co-operative banks and societies, and that State participation should be so designed as not to undermine the sense of responsibility and self-help of co-operative organization and their members. This was an extremely important consideration since a major aim of policy would be the development and strengthening of the co-operative movement from the village upwards. Moreover, the degree of State participation, while broadly conforming to the recommendations of the Rural Credit Survey Committee, should be sufficiently flexible to suit the varying conditions of different states in the matter of co-operative development."

42. Tentative Plans for Co-operative Development during the Second Five-Year Plan:—[Based on information contained in a Note to the Proceedings of the Fifth Meeting of Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India.] One of the important recommendations of the Rural Credit Survey Report was that the State Governments should draw up plans for the development of co-operative credit in consultation with the Reserve Bank of India. The Conference of State Ministers held on 16th April 1955 at New Delhi recommended that these plans should be formulated as an integral part of the Second Five Year Plan. It was also held that "the long-term goal should be organiztion of rural business in such a way that within a period of fifteen years, 50 per cent of the total business—credit, marketing, processing is co-operative. With this ultimate object in view, but on the basis of a realistic assessment of all the relevant factors, targets were to be worked out for each State in the context of the Second Five-Year Plan." The following tentative targets were laid down for the country as a whole for the Second Five-Year Plan:—

Co-operative Credit.	—Present position	—Targets in 1960-61.
1. Membership of primary agricultural credit societies.	—5 million	—15 million
2. Short-term loans advanced	—Rs. 30 crores.	—Rs. 150 crors.
3. Average loan per member,	—Rs. 60/-	—Rs. 100/-
4. Medium-term loans.	—Rs. 10 crores.	—Rs. 50 crores.
5. Long-term loans.	—Rs. 3 crores.	—Rs. 25 crores.

(2) *Pilot Projects*—Since it was felt that the implementation of the recommendations of the Rural Survey Committee involved large financial outlay and a good deal of organization, it was decided to try the programme of Rural Credit Reorganization on a pilot basis in two or three selected areas in each State in the year 1955-56,

and finance from the funds found in the first Five-Year Plan. The Government of India, according to this Note, took the initiative and requested the State Governments to submit concrete proposals for co-operative development under the Second Five-Year Plan after discussions between the Reserve Bank and the Ministry of Food and Agriculture took place in that regard. The plans received from the States were then duly examined by the Reserve Bank and the Ministry of Food and Agriculture. When the plans came up finally for consideration of the Planning Commission, the officers of the Agricultural Credit Department of the Reserve Bank and the Ministry of Food and Agriculture took part in the discussions on co-operative plans with the officers of the State Governments and the Planning Commission in the working group on agriculture.

(3) PLANS—*Procedure adopted before finalization of the Plans.* The Note refers to the method of scrutiny adopted and the points of view stressed in the examination of the plans together with the data available for different items included therein as mentioned in the following paragraphs. (Vide Note No. 14 at pp.106 to 121 of the Proceedings of the Fifth Meeting of the Standing Advisory Committee of the Reserve Bank of India on Agricultural Credit.)

(4) *Reorganization of Co-operative Credit :*—One of the most important features of the plans is the formation of larger-sized credit societies for groups of villages with an adequate scope for business to meet the requirements of productive credit to cultivators. If new societies were to be established, preference should be given to the organization of larger-sized credit societies. Although the aim would be to organize as many larger-sized societies as possible, it is realized that a large number of small societies would necessarily continue to function. The following table shows the final position in regard to the organization of largersized societies in several states.

Number of Larger-sized Credit Societies.

Part A States,	Proposed by the States.	Proposed by Reserve Bank.	Accepted by. Working Group.
Part A States.	—	—	—
Andhra, Assam, Bihar Bombay,	—	—	—
Madhya Pradesh, Madras,	—	—	—
Orissa, Punjab, U.P. and	—	—	—
West Bengal.	8580 —	8870 —	8700
Part B States:—			
Hyderabad, Jammu & Kashmir,—	—	—	—
Madhya Bharat, Mysore, Pepsu,—		—	—
Rajasthan, Saurashtra, Travan—		—	—
core-Cochin,	4485	3028 —	2620
Part C States:—		—	—
Ajmer, Bhopal, Coorg,	—	—	—
Delhi Himachal Pradesh,	—	—	—
Cutch, Manipur, Tripura,	—	—	—
Vindhya Pradesh and Pondi-	—	—	—
cherry.	738	385 —	595
Grand total	13803	12283	11915

(5) **Government-contribution to Share capital of larger-sized Credit Societies**:—Small societies and societies organized on an unlimited liability basis will not be eligiber for any contribution to their share capital. A sum of Rs. 20,000/- has been condsidered to be adequate for the share capital of a larger-sized society, Government contribution being 50 per cent of this amount. The States have planned their targets on this basis. The following table indicates the total amount of contribution expected to be made by the Government to the share capital of larger-sized primary credit societies.

	No. of Societies.	**Govt. contribution.**
Part A States	— 8700	—Rs. 807.50 lakhs.
Part B States.	— 2620	—Rs. 240.00 lakhs.
Part C States.	— 595	—Rs. 78.37 lakhs.

The object of the contributions is to strengthen the capital structure so that the society could borrow enough to meet the members' needs. The contribution should, therefore, be sufficient to meet this object and should not lead to over-capitalization. The State Government may, therefore, make a suitable initial contribution and the balance may be given as and when required in the nezt five years.

(6) **Staff for Larger-sized Societies**:—Each larger-sized society would have to be provided with a Manager or a Secretary at the rate of Rs. 3000 per society for the plan period. The subsidy is proposed to be provided on a sliding scale during the intitial period of three years after establishment or reorganization of a society. Thus the entire salary of the Secretary or the Manager would come from the subsidy in the first year. In the second and the third years 75 per cont and 50 per cent of the cost respectively may be met from the subsidy. Such subsidies amount to nearly Rs. 234 lakhs.

(7) **Godowns**:—The larger-sized society is expected to supply the production needs of its members such as seed, fertilisers, manures, etc. and it would also supply, if necessary, essential consumer goods such as salt, match-boxes, kerosene etc. It is also expected to function as agent of the primary marketing society in assembling agricultural produce for the purpose of marketing it through such society. These functions can be performed efficiently if the larger-sized society has got its own godowns. But it is not possible to provide each society with a godown. It is. therefore, contemplated to provide about 5400 of these societies with a godown each costing about Rs. 10,000/-.,It is expected that 25 per cent of the total cost of the godowns would be provided by Governments as subsidy and the balance treated as loan. The total outlay involved would be of the order of Rs. 5.40 crores.

(8) **Reorganization of Central Banks**:—The Rural Credit Survey Report has suggested that that there should generally be one central co-operative bank for each district. This has been accepted and the State plans have proceeded on this basis. But it may be noted that there are instances where, according to considerations

of the size of the district, and adequacy of business expected, it has been agreed that there may be more than one central bank in a district. It was also made clear to the States that the Reserve Bank would insist on the rationalization of the banking structure on the above lines if loans were to be had from the National Agricultural Credit (Long-term Operations) Fund for contribution to the share capital of the banks. The apex Banks only in Part C States are expected to play the role of central banks, as Central Banks are not proposed to be set up there. If and when the Part C States are merged with the bigger States as a result of the reorganization of States, it should be possible for these small-State Co-operative Banks to function as central banks. For making contribution to the share capital of central banks, the following factors were taken into consideration:—

(*a*) The existing level of owned funds.

(*b*) Expected increases therein.

(*c*) The proposed lending programme.

(*d*) The capacity of the bank for borrowings.

Government contribution to the share capital of 279 central banks in the country that would be reorganized during the Plan-period is estimated to work out at Rs. 8.11 crores. The central banks are also expected to take over the responsibility of supervision from the Co-operative Departments and in cases where it was proposed to entrust supervision to the banks, adequate provision was made for payment of subsidies for the supervisory staff of central banks. Provision was also made in a few cases for subsidizing the post of an Executive Officer for each central bank.

(9) **State Co-operative Banks**:—Provision was also made in the State plans for strengthening the financial position of apex banks in order to play the role assigned to them in the scheme of integrated scheme of rural credit. In Part C States having no apex banks, plans provide for the starting of new apex banks. The total contribution expected to be made by the State Governments to the respective co-operative banks is estimated to be of the order of Rs. 4.77 crores. This contribution varies from Rs. 2 lakhs in the

case of small states like Ajmer and Coorg to Rs. 50 to Rs. 75 lakhs in respect of bigger states like Andhra and Uttar Pradesh.

(10) **Land Mortgage Banks:**-The Rural Credit Survey committee recommended that each State should have an independent Central land mortgage bank and in pursuance of its recommendation, provision was made for the starting of an independent bank for each state big or small. At the primary level the proposal that long-term business should be allowed to be done through district central banks until such time as there was adequate scope for the operation of a independent primary land mortgage bank in any area was approved. Government contribution also varies from Rs. 1 lakh in the case of Part C States like Manipur, Tripura and Pondichery, to Rs. 25 lakhs in the case of Bombay. No separate contribution to the share capital of primary land mortgae banks is provided, since all the funds they require are borrowed from the central land mortgaje bank. Thus the proposed contributions of the State Governments to the share capital of co-operative institutions at different levels of the co-operative credit structure work out at about Rs. 25 crores shown as under:—

	Rs. (in lakhs)
(1) Larger sized societies.	1125.87
(2) Central Co-operative Banks.	811.00
(3) State Co-operative Banks.	477.00
(4) Central Land Mortgage Banks.	107.00
Total Rs.	2520.87 lakhs

(11) **Method of Contribution to the Share Capital:**—The recent amendments to the Reserve Bank of India Act enable that Bankto give loans to the State Governments for contributing to the share capital of co-operative banks and societies. In making provision on the above scales it is expected that the State Governments would borrow that much only, which is needed from the Reserve Bank. It is at the discretion of each State also to decide whether the contribution should be direct at all levels or direct at the apex and in-

direct at the lower level. If the indirect method is adopted, the apex Bank will, in the first instance, contribute to the share capital of the central banks and the funds required for the purpose wou d be borrowed from the State Governmetns which in their turn would borrow from the Reserve Bank, if and when necessary. Similarly the funds required for contribution to the share capital of larger-sized societies, would come from the Apex Bank to the central banks in the first instance in the form of loans and the Apex Bank will then borrow the requisite funds from the State Government.

(12) **Co-operative Marketing, Processing and Warehousing-**

(*a*) *Co-operative Marketing Societies:*--The Report of the Rural Credit Survey committee considered the development of co-operative marketing as one of the most imoprtant pre-requisites for the success of crop loan system recommended by it. It is through a marketing co-operative that loans granted for raising crops by the primary credit society will be realized and thus the marketing society plays a vital role in the system of integratedcredit. Hence the programme of development of co-operative marketing societies at the primary level has been given priority even in advance of development of credit societies. Due emphasis has, therefore, been laid on the establishment of marketing societies at Mandi centres or places of commerical importance. During the second Five-Year Plan period nearly 1,736 Marketing Co-operatives are proposed to be organized or reorganized; the average paid-up capital of a primary marketing society has been fized at Rs. 50,000/- and provision for State contribution to the share capital has been put at Rs. 25,000/- per each society. In some States a larger provision may be necessary while in others a smaller provision may prove adeguate. Thə State Government is expected to determine the requirements ofeach society with reference to the existing capital structure and to the turnover of business. Thus while it is sufficient to provide as much as Rs. 40,000 to Rs. 50,000 to some societies, others might manage with Rs. 10,000 to Rs. 15,000 only. No provision has been made for thes etting up of marketing co-operatives at the district levels, as there may be no scope for their activities at present. The marketing societies would ordinarily at present consist of only two tiers, viz., at the base and at the top, and since it has to be built up

from bottom upwards, the need for any intermediate agency would be felt only if the marketing co-operatives at the base are properly developed and well-established and if the intermediate agency at the district level would undertake only those functions which the primaries cannot undertake efficiently . The case of the Apex Marketing Society would, however, be different and it is necessary to have such a body for distribution of productive requirements to the cultivators in the State and for the promotion of inter-State and export trade. Thus provision has been made for contribution by the State to the share capital of the apex marketing societies in the various States and the amounts provided vary from Rs. 50,000/- to Rs. 1 lakh per society.

(*b*) *Warehouse for Marketing Societies:*—Without adequate storage space no marketing co-operative can play its role efficiently in the system of integrated credit and marketing. In view of this, barring a few exceptions, it is provided that the primary marketing societies should each have a godown costing between Rs. 20,000 and Rs. 30,000. Thus nearly 1865 godowns are expected to be built by the primary marketing co-operatives at a cost of about 399.28 lakhs during the second Five-Year Plans period. In the case of State marketing societies, provision has been made for godowns at Rs. 25,000 to Rs. 1 lakh each, and the aggregate amount so provided is estimated to be of the order of Rs. 14.70 lakhs. In all Part A and Part B States, State Warehousing Corporations will be estabilshed the total provision for them in the Plans being Rs. 517.50 lakhs. No provision is made for the establishment of a State Warehousing Corporation. In small and undeveloped States warehousing and storage are expected to be developed through the Central Warehousing Corporation or the State Co-operative Marketing Society. The Rural Credit Survey Committee has suggested at the All-India level for the development of credit on the one hand and of marketing, processing and warehouaing on the other between the Reserve Bank of India and the Government of India respectively. The funds required for contribution to the share capital of marketing societies, for construction of godowns and warehouses and for subsidies for staff would be partly provided by the Government of India. In implementation of the recommendation contained in

the Rural Credit Survey Report, the Government of India have now passed the Agricultural Produce (Warehousing and Development) Act in 1956, and the Development Board has also been established.

(*c*) *Staff for Primary Marketing Societies.*–Provision has been made for a subsidy of Rs. 5000 for each primary marketing society, so that it may be enabled to employ a properly qualified and well-paid Manager. The amount is to be utilized on a sliding scale for a period of three years. Similarly, a subsidy varying between Rs. 10,000 and Rs. 25,000/- is provided for the Apex Marketing Society.

(*d*) *Processing Societies:*—The State Plans had provided for contribution to the share capital, subsidies for staff etc. for processing societies like sugar factories, cotton ginning, jute baling, rice-milling, oil-mills etc. The State Governments were advised that independent co-operative societies for processing of agricultural produce should not be registered except in a few cases like sugar factories, spinning mills etc. Selected co-operative marketing societies are expected to take the processing of members' produce as an integral part of marketing. Provision has been made for additional share capital and long-term loans for such societies. No subsidy for staff is provided inasmuch as a subsidy for the staff of the marketing societies is already included. The total provision for State contributions towards share captital and loans for processing is of the order of Rs. 497.55 lakhs.

(13) **Provision for Departmental Staff:**—In order to safeguard the efficiency and stability of the Co-operative Movement, provision for adequate departmental staff at all levels is called for and this was done while examining the State plans; standards for staff recommended by the Reserve Bank are as follows :—

(*i*) *Supervisory Staff:*—One supervisor for every 15 larger-sized credit societies and one for every 25 small credit societies and other societies.

(*ii*) *Audit Staff:*—One Auditor for every 20 larger-sized societies and one for every 45 smaller credit societies and miscellaneous societies. It was recommended to the State Governments that the Central Financing Agencies should take up the responsibility for

supervision of the credit societies financed by them. As the Central Financing Agencies take up the work, State Governments would provide funds necessary to meet the cost as subsidy to them. The question of strengthening the staff of the Co-operative Department at all levels for general administration, inspection and overall supervision was equally important, and the existing position was examined and found to be inadequate. Provision was, therefore, made for staff in the Plans of all States. In considering proposals for additional staff, account was taken of the staff available through the National Exetnsion Service for the develop ent of co-operation in the National Extension Service Blocks. Attention was also paid to the special requirements of providing additional staff for special activities such as the development of land mortgage banking and strengthening the organization at the district headquarter level. Provision made is regarded as the irreducible minimum, and the total provision for additional expenditure for strengthening the departmental staff and for subsidies for the staff of the larger sized credit societies, marketing societies, etc., works out at about Rs. 13 crores.

(14) **Provision for Relief and Guarantee Fund and Co-operative Development Fund:**—The States have made provision forc reation of Relief and Guarantee Fund in accordance with the recommendations made in the Rural Credit Survey Report. Generally provision has been worked out on the basis of about 1 per cent of the loans expected to be outstanding from the primary credit societies and the land mortgage banks by 1960-61. Provision is also made for a State Co-operative Development Fund. The provision made under the latter head is in the nature of a reserve to meet any unexpected expenduture on any schemes in respect of contribution to share capital, construction of godowns or subsidy for staff etc. The following table gives an idea of the provision made:-

States	—Relief)and —Guarantee Fund	—Co-operative Development Fund Amts. in lakhs.
Part A States	— 220,00	— 242.50
Part B States	— 50.00	— 46.00
Part C States	— 10.00	— 9.0750
Toɩal Rs.	— 280.00	— 298.25

(15) **Co-operative Farming:**—Not much appears to have been done in the matter of experimenting with co-operative farming, and it is intended to continue experiments in that regard during the Second Five-Year Plan period. A modest provision to the extent of Rs. 98.75 lakhs has been made for granting subsidies and loans to such societies for the employment of staff and for the purchase of machinery and equipment.

(16) **Co-operative Training and Education:**—For the success of the plan for co-operative development, it is not enough if financial provision is made for the requisite number of personnel to man the Co-operative Departments and co-operative institutions like credit and marketing, it is necessary to see that the staff employed is fully trained, technically competent and responsive to serve the needs of the rural population. Training of the personnel needed at different levels is, therefore, an integral part of the Plan. Both the Rural Credit Survey Committee and the State Ministers have laid great emphasis on providing the necessary facilities. The responsibility for guiding and supervising the training arrangements lies on the Central Committee for Co-operative Training jointly constituted by the Reserve Bank and the Government of India. The expenditure in connection with the Training Institutes for higher and intermediate personnel is to be borne by the Reserve Bank of India, while expenditure over the training of subordinate personnel is to be shared between the Central and the State Governments. Provision has, therefore, been made in the Plans according to the requirements of each State for one, two or more Schools. In addition to the training of the above personne,l most of the States have proposed to make arrangements for the training and education of office-bearers and members of societies. Provisions made in the State Plans under training and education, were awaiting examination and approval of the Central Committee for Training.

43. **Co-operation in the Second Five-Year Plan:**—The detailed Second Five-Year Plan has been accepted by Parliament, and co-operative development has been assigned a definite place, as it is now recognized that the co-operative organizations form an important part of the economic structure of the country and come into contact with the various aspects of the economic life at various

stages and levels. Though Co-operation has been accorded its due place, the Planners observe : " the fields which mark themselves out as being specially appropriate for the co-operative method of organization are agricultural credit, marketing and processing, all aspects of production in rural areas, consumers' co-operative stores, co-operatives of artisans and labour and construction co-operatives." They further add that "where it succeeds, co-operation brings large gains to the community, but the human factors involved in it are complex and in some ways it is much more difficult for the co-operative form of organization to succeed than it is for a completely socialised enterprise or for an individual enterpreneur". This statement of the Planners shows that they are not quite sure of the efficacy of the co-operative method in tackling the problems involved. The Planners also have accepted the idea of State partnership, as could be seen from the following statement:—

"The most important departure from earlier programmes which the Rural Credit Survey envisaged was that the State should enter into partnership with co-operative institutions at various levels. It was felt that such financial partnership would provide additional strength to co-operatives and make available to them in fuller measure assistance and guidance from the Government. The principle of State partnership will app.ly specially at the apex and central bank level and in a more flexible manner at the primary level. It has been made clear that the essential basis of State portnership is assistance and not interference or control."

The Planners have now made it clear that the essential basis of State partnership is assistance and not interference or control. Time alone will reveal to what extent and how far it would be implemented in actural practice. But at any rate, the representatives of the State on the Management of Co-operatives should not form a majority.

(2) The Second Five-Year Plan has laid down the following targets for Co-operative Credit, Marketing, Processing and Warehousing and Storage:—

Credit :

No. of larger-sized societies.	......	10,400
Target for short-term credit	......	Rs. 150 crores.
Target for medium-term credit	......	Rs. 50 crores.
Target for long-term credit	......	Rs. 25 crores.

Marketing Processing :

No. of primary marketing societies to be organised	...	1800
Co-operative sugar factories	... ...	35
Co-operative cotton gins	... ...	48
Other co-operative processing factories	...	118

Warehouses and Storage :

Warehouses of Central & State Corporations.	...	350
Godowns of marketing societies.	...	1,500
Godowns of larger-sized societies.	...	4,000

These targets for co-operative credit are to be achieved both through the existing and new societies. It is hoped to raise the membership of co-operative credit societies nearly threefold from less than 6 million to about 15 million.

The Second Conference of State Ministers held in July 1956 at Mussoorie raised the number of marketing societies to be set up to 1908, the number of sugar factories to 60, the number of cotton ginning and processing factories to 100. The Plan makes a provision of 47 crores for co-operative credit, marketing and processing. It is estimated that co-operative agencies would be able to handle about 10 per cent of the marketable surplus by the end of the Second Five-Year Plan. While clarifying the conception of larger-sized primary credit societies, the Planners say "Thegeneral pattern of organization for a large co-operative society is that it would have a membership of about 500, the liability of each member being limited to five times the face value of capital subscribed by him. The society would have a minimum share capital of about 15000 and would serve an appropriate number of villages grouped together for the purpose and together providing, wherever possible, a total annual business of about 1.5 lakhs. By 1960-61 it is proposed that

10,400 such larger-sized." credit societies each with a trained manager, seould be established." This means that the societies would cover a membership of 11 million as against the target of 15 million. The Planners intend to make up this deficit in membership by permitting smaller societies to function side by side with big-sized ones by giving them financial and other assistance as at present. Thus the formation of smaller societies with fair prospects of success is not ruled out though larger ones will receive financial assistance for the managerial staff provided under the Second Five-Year Plan. Regarding the role of co-operatives in community development projects and national extension blocks, the Plan lays emphasis on basic institutions in the village but the Plan does not clarifiy that what is contemplated is co-operative institutions only as basic institutions. While development of co-operativ organizations in the village has been accepted as apart of community development in National Extension Programme, the vital role co-operatives play in the development at the village level has not been clearly recogniz3d when the Planners say : "The implementation of co-operative programmes in community project and national extension areas has been uneven in character and frequently either adequate personnel has not been available or existing co-operative organizations have not been reorganized and enabled to participate in the work of the projct." It is rather difficult to believe why co-operatives with technical and financi al assistance made available to them by the State should not be in a position to pull their full weight as basic institutions in order to keep up the continuity and progress of the community projects and national extension programmes. The Planners also devote some attention to co-operative farming, and it is suggested that the effort should be to work out the best solutions through systematic study and observation and make them known as widely as possible, so that the peasants may adapt them to their conditions. The Plan suggests that in the inutial stage of co-operative development, there may be family holdings supplemented by joint work for specific purposes. But the Plan suspends final judgment till further information is available. With this in view, the Planning Commission has arranged through Programme Evaluaition Organization for a first-hand study of 23 selected co-operative farming societies in 13 different States. It may be noted that the Second

Conference of State Ministers on Co-operation recommended that about 500 experiments in co-operative farming should be undertaken in 1956-57 in the national extension service areas where conditions are favourable, the purpose being to locate at least one co-operative farming society in every national extension block. With respect to land reform programme, the Planners observe that it is essential in devising the land reform programme care should be taken to ensure that while its objectives are secured, co-operative credit institutions are not placed under handicaps which might affect their financial soundness. This warning of the Commission has been very timely as the latest amendments to the Bombay Tenancy and Agricultural Lands Act 1948 would be brought into force from 1st April 1957 with its sweeping provision for making the tiller the owner of the soil, after the extingishment of all encumbrances on the land. All co-operative credit institutions will find the value of their security subsisting on land considerably reduced as a result of an arbitrary valuation of land put down in that Act. The heavy responsibility rests on the State Government to see that the losses, if any incurred by these institutions as a result of reduced valuation and while working as instruments of State policy are made good The Report goes on to add that "co-operative institutions will, in future, advance loans only wiith reference to areas held under personal cultivation. Secondly, to facilitate the grant of medium-term and long -term loans to tenants who are brought into direct relationship with the state as a result of land reform, rights of transfer in favour of co-operative financing institutions should be permitted. Further , in respect of land which comes into the possession of co-operative financing institutions in the course of their operations, restrictions relating to cellings on agricultural holdings or to cultivation through tenants or leases need not be applied. Co-operatives should be free to sell the land to any one at such price as may be obtainable subject only to the condition that the transferee uses the land for personal cultivation and that as a result of purchase or transfer, the land held by him does not exceed the ceiling prescribed by law. In regard to co-operative farming , the approach of the Planning Commission would appear to be realistic. Three methods of pooling of land are suggested . The owner may be compensated by ownership dividend or in the shape of grant or in the shape of shares

representing the value of land transferred from the individual to the co-operative society. The essence of pooling is that the farm should be managed as a single unit for all puropses or for some selected purposes. The Planners suggest that special assistance should be given to co-operative farming societies formed by voluntary groups in the shape of credit from Government or co-operative agencies, preference in the supply of improved seeds, fertilisers and materials for local construction, facilities for consolidation, technical assistance, and subsidy for managerial expenses for a limited period. There are many other useful recommendations made by the Planners in the sphere of village and small-scale - industries, transport, housing, labour co-operatives, fishermens co-operatives etc. Thus co-operation finds a very important place in the Plan. In the programme of training personnel the Plan mentions that about 25000 co-operators are needed at different levels. It is expected that in the higher categories shortages are not likely to develop, but the problem of ensuring adequate supply of personnel at intermediate levels requires constant review. With the amount of State assistance made available to it, and State participation the Co-operative Movement will have to shoulder the responsibility of finding workers and generating enthusiasm amongst them in order to carry out successfully the objectives of the Plan. Thus the Second Five-Year Plan, while providing opportunities for the growth and development of the movement, puts it also on trial.

44. **Co-aperatative and Socialistic Pattern of Society.** - The draft outline of the Second Five-Year Plan in paragraph 10 of Chapter 1 observes:

"The socialist pattern of society is not to be regarded as some fixed or rigid pattern. It is not rooted in any doctrine or dogma. Each country has to develop according to its own genius and traditions. Economic and social policy has to shaped from time to time in the light of historical circumstances. But, a c.lear sense of direction and consistent regard for certain basic values are necessary The accent of the socialist pattern is on the attainment of positive goals: the raising of living standards and the enlargement of opportunities for all, the promotion of enterprise among the disadvantaged classes and the creation of a

sense of partnership among all sections of the community. The directive principles of State policy in the Constitution have already indicated the approach in broad terms. The socialist pattern is a more concretised expression of this approach. Economic policy and institutional changes have to be planned in accordance with the democratic and egalitarian ideals which the country cherishes and is resolved to pursue." The observations of the Planners regarding the suitability of the co-operative method of approach for tackling various forms of economic activities are spread over throughout the Report of the Commission, though one chapter is wholly devoted to the development of co-operation. Resort to the co-operative method of organization is favoured by the Planners not only in the field of agriculture but also for the better functioning of village industries, handicrafts and small-scale industries, for dairying and horticulture, for fisheries, for provision of labour on small and large construction works, for rural and urban housing etc. Socialistic economy through democratic methods necessarily implies the organization of all economic activities of the community on a co-operative basis. A writer has said : that democracy will prosper only if it learns to use every agency-created by the people to advance the cause of social justice. These agencies are the co -operative forms of organization recommended for adoption and which must be fully utilized as part of the process by which the social ideals of democracy are realized. The method adopted must lead to greater freedom and fuller and a better life for each individual. The present social order is based partly on acquisitive economy which has to be discarded and we want to build a socialistic pattern of society. That pattern is intimately related to co-operation in various fields. "The need for co-operative action is generally to be found in the economic and social condition of the people A few of these have already been mentioned , e. g. , exorbitant rates of interest, exploitation of the consumer by over-charging and the adulteration of goods, inability of producers to obtain fair prices for crops through lack of organization, conditions of work among craftsmen which destroy independence , initiative or pride in their work. The various types of societies to meet these needs, viz., credit, consumer, marketing and handicraft, retain and restore the freedom of the individual throughs self-help, reinforced by mutual action. The benefits of combined action are displayed in

sociological and economic aspects of life in that the community spirit is encouraged and developed by the practical application of the democratic methods to the economic work of the community." If tne socially controlled economy were to be interpreted as democracy in the sphere of economic life, it should be our aim to ensure that all sectors of that life are informed by the spirit of democracy. The-predomiinant sector in India is the agricultural one, which roughly contributes about 50 per cent. of our total national income. The socialistic form of organization in this field need not necessarily mean nationalization of all land or resort to collectivization. Social control can be introduced through other means. The process of abolishing feudal rights in land, eliminating needless inter-mediaries requires to be expedited. Along with it, there should be ceilings fixed for land holdings , and it would be necessary to define the minimum unit of farming below which cultivation becomes unremunerative and uneconomic. The uneconomis units or the lands acquired under the Bhoodan Movement and surplus lands available for redistribution with the imposition of ceilings should be pooled and formed into consolidated blocks, the cultivation of which should be done through co-operative farming societies. . The establishment of co-operative farming societies for the culti-vation of khar or reclaimed lands or forest lands should be encou-raged by the State in accordance with the planned programme of development. This programme may also include tenant -farming societies or voluntarily formed land -holders' societies, or societies accepting joint village management . It is likely that a large section of the agricultural community may be outside the operation of this programme. Mostly this strata of society would consist of another class of lees privileged persons having poor resources and groaning under exploitation. Unless these persons are brought within the co-operative fold by making credit and other resources available, and provision of marketing facilities, the chanees of increasing the quantum of production or per capita income appear to be remote. These cannot be increased without providing aids to agriculture on a basis of self -help and mutual help and at the same time reducing the scope for their exploitation. Another sector of Indian ecenomy which is more important is that of self-employed persons engaged in small-sized industries other than agriculture. These small-sized units contribute Rs. 910 crores to the national income, as -

against Rs. 550 crores which is the contribution of the factory establishments. These self -employed persons outnumber many times those engaged on a wage basis in the factories. Among producers of wealth their per capita income is lowest. Like their comrades in the field of agriculture, they have also poor resources and are also subject to exploitation, being far more numerous, they are more important from a humanitarian point of view than those engaged in factory estanblishments. As they have to face serious competition and are unable to find enough work throughout the year, they have neither the knowledge nor the resources to achieve technical efficiency or improvement. They canbest be helped through the organization of industrial co-operatives in rural areas or through rural multi-purpose societies, so as to redress the serious imbalance between agriculture and industry. The Economic Programme Committee which has been already referred to was clearly of the opinion that industries producing articles of food, clothing and other consumer goods should constitute the decentralized sector of Indian economy on a cottage and small-scale basis and run on co -operative lines. The committee further recommended that the location of those industries providing full and varied employment of man-power and raw materials should be planned as to make districts of average size self -sufficient in respect of consumer goods, particalarly food and cloth, which supply the needs of the people. In order to secure this development, the Committee has urged the respective spheres of large-scale, small-scale and cottage indusrtries should be demarcated as clearly as possible to avoid economic insecurity and destructive competition. The Planning Commission also reecommended that the policy should be directed towards this end. Howsoever one may be anxious to bring these self-employed persons within the co-operative organization, the task is by no mesns easy, as the individualistic spirit amongst the peasants and artisans in this country is too evident where economic matters are involved. Co-operation , it is obvious , can grow only with the education of the individual. This education will have to include not only the principles and practice of co-operation, but also the inculcation of the spirit of working together for common tasks and the willingness to implement the social purpose. What is visualized in a socialistic pattern of society is the co-operative order of society or socialistic co-operative common-

wealth and not socialized economy. Though co-operation and socialism are born in the same cradle, and keep social and economic welfare of the community as their ideal, they are opposed to capitalim and believe in common action. For the attainment of economic and social objectives they are not identical movements. They differ fundamentally in regard to the methods they adopt to gain their objectives and also in regard to certain principles as well. Co-operation stands for self-reliance and self help, while socialism stands for Government help. Co-operation is thus the opposite of socialism, and is the one organized force today that is moving the world away from socialism; the efforts of the socialists to identify co-operation with socialism. result in confusion While co-operators take the stand that nothing should be left to be done by the state which they themselves can do, socialists in the co-operative movement are advocating Government ownership of certain undertakings, e. g., the socialist parties stand for - the ownership of electric supply, housing, milk supply, transportation and other services which the co-operatives are performing in most of the countries in the world, or may perform in future, Co-operators believe that state or the community exists for the - individual, while under socialism the individual is suppressed. The State or the Community comes first according to the socialists. On the one hand, we find the strange phenomenon of expansion of co-operatives and on the other, Government functions are , also being increased. The struggle between Co-operation and the State bids fair to become the economic conflict of the future. If the meaning of each viz., socialism or co-operation, is not correctly understood by co-operators, it would ultimately spell disaster for co-operation. One may very well ask, what are the implications of a socialistic pattern of society which we want to build for the common man in India ? While addressing the Second State Ministers' Conference at Mussoorie, Shri A. P. Jain, the Union Minister for Food and Agriculture, explained the implications of such a society in the following words:

"The country has now accepted the goal of socialist society. Increased production and equitable distribution are its two cardinal attributes. The basic criterion for determining the lines of advance are not private profit, but social gain. The structure of socio-

economic relation and pattern of development have to be planned that they result not only in appreciable increase in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution, consumption and investment have to be made by agencies informed by social purpose. The benefits of economic development must accurue more and more to the relatively less privileged classes of society, and there should be progressive reduction in the concentration of income, wealth and economic power. The problem is to create a climate in which the small man who has so far had little opportunity of participating in the immense possibilities of growth is enabled to put in his best in the interest of a higher standrd of life for himself and increased prosperity of the country. The small man has to be helped to rise in economic and social status. In this context the latest resolution on industrial policy has special significance to those who are devotiong their time to co-operative movement. The new policy envisages a large and growing co-operative sector and lays down that special assistance be given to enterprises organized on co-operative lines for industrial and agricultural purposes. Principles of co-operation have to be applied , wherever possible, and a steadily increasing proportion of the private sector developed on co-operative lines.

* * *

CHAPTER II

Measures concerning Rural Indebtedness and its relief in India

According to the census of 1951 the agriculturial population of India was nearly 35 crores and it formed 71 per cent. of the total population in the whole of India including the merged States. And the general condition of the common agriculturist in India has leen well summed up in the following lines.

> "Bowed by the weight of centuries, he leans
> Upon his hoe, and gazes on the ground,
> The emptiness of Ages in his face.
> And on his back the burden of the world:"

The agriculturist in most countries of the world is a small man and must borrow in order to be able to carry on his occupation. It has always been difficult for him to obtain credit on reasonable terms because his credit is so small. It is a fact which has to be acknowledged that while commercial credit can be obtained chiefly on credit instruments, agricultural credit, though backed by - tangible security, has been always more costly. The ignorance of the agriculturist, the distance that separates the villages from centres where banking institutions are situated, the reluctance of the banking institutions to expand credit to the small producer on security, which they do not appreciate, the want of knowledge on the part of bankers regarding the solvency or integrity, or character of the borrower -- all these have combined to make credit dearer for the agriculturist.

2. Causes of Rural Indebtedness: A variety of reasons have been given why the Indian farmers have to borrow and continue to remain in debt.

(1) The fragmentation of holdings so common makes- cultivation of land uneconomical and the income derived from land proves inadequate for the maintenance of the farmer and

his family. Thus the farmer is found to borrow even for his living expenses. This is the root cause of ruraldebt which arises from-insufficiency of income. .

(2) Partial employment.: The farmers have no suitable subsidiary occupations and the consequent enforced idleness for a part of the year leaves a gap in their income. Too much reliance on land and the meagre income insufficient to meet the aneeds of the family drive the farmers to seek moneylender's assistance at-exorbitant price.

(3) Vagaries of the Monsoon : The monsoon in many parts of India is extremely uncertain and it is aptly said that agriculture is a gamble in rains. The agricultural cycle consists on an average for every five years one good year, one bad year and three years which are neither good nor bad. The varietion in the yield and-consequent instability force the farmers to resort to the money-lenders for meeting their expenses during lean years. Thus the , annual deficit budget continues to be the root cause of debt.

(4) **Want of Transport and Marketing Facilities:**—The Indian farmer fails to get the full value for the produce he raises from the soil. Being presseed by the moneylender on the one hand and the tax-gatherer on the other, he is forced to sell his produce immediately after the harvest in a glutted market at an uneconomic price. Owing to lack of transport facilities and good roads connecting the mandies, he often parts with his produce in the village itself to the moneylender or the agents of big firms in order to repay interest and instalment of loans borrowed, at the price dictated by the latter.

(5) **Rise in the Value of Land brought about by Stable Conditions in the Country:**—The establishment of peace and order under the British Raj and the opening up of the Suez Canal and the consequent availability of foreign markets during the latter part of the nineteenth century caused a considerable spurt in the prices of agricultural products, with the result that the land values in India were pushed up considerably. Opportunities also opened up for raising loans on the mortgage of land and were responsible for a tremendous rise in the volume of agricultural debt.

(6) **Repayment of Ancestral Debt.** :—Because of a high rate of interest charged by the moneylenders on loans coupled with the practice of charging compound interest, it became pretty difficult for the Indian farmer to extricate himself from debt once he borrowed from the moneylender, during his life-time and thus it was passed on to his sons and grandsons. To a Hindu son payment of his father's debts is a pious obligation and most of the farmers do not resort to law to escape their liability even in cases where the debts are time-barred.

(7) **Nature of Moneylenders' Finance** :—The farmers are as a class still illiterate and ignorant and pitted against the class of moneylenders, who are, as a rule, educated, intelligent and shrewd businessmen. The moneylender does not make any distinction between a productive and unproductive debt and thus exploits the farmer very easily. He is further accustomed to manipulate the accounts and the interest charged by him is invariably usurious. Thus a farmer, once in debt, remains perpetually in debt. Thus it is pertinently remarked that the Indian farmers are born in debt, live in debt and die in debt.

(8) **Improvidence** :—The farmer is generally frugal, but his improvidence is the result of sheer necessity, and arises as a result of his serfdom to caste or religious usages. It does not, however, consist in extravagant expenditure or misapplication of his income. He spends in an extravagant manner on the occasion of a marriage or a funeral. The social custom demands that a particular sum should be spent on occasions like a marriage or a funeral and such a sum is spent out of proportion to his income. Though such expenditure is incurred once or twice in several years, the amount borrowed is so heavy as to cripple the farmer for life. His chief fault lies in not making any provision for a rainy day, so that he might meet such expenditure or be prepared for visitation of a bad year. It is also problematical whether the farmer is at all in a position to save, taking on an average the agricultural cycle of a period of five years. The increased value of land expands his credit and he is tempted to borrow more, as debt always follows credit.

(9) **Purchase of Land at Exorbitant Prices** :—Purchase or lease of land at an uneconomic price has also been one of the reasons responsible for farmer's indebtedness. A temporary inflation of credit as a result of the rise in prices of land during and after the War put more money into the pockets of the farmer. This tempted him to invest his money in land on the basis of the current market values. When slump followed, the agriculturist found that the income from the land was not even adequate to pay interest on the amount partly borrowed to pay the price of the land or to yield a small return on the invested capital. With rise inprices the standard of living of the agriculturist went up and the cost of cultivation had also similarly increased. With the fall in prices there was no corresponding fall in either of these items, with the result that expenditure had permanently increased and income had lagged behind. These are the general causes for agricultural indebtedness as a whole, but they may not be equally operative in all parts of the country.

3. **Estimates of Rural Debt.** :—Though accurate statistics are not available regarding the total amount of rural indebtedness estimates have been made from time to time, but in almost all of them, there is an element of guesswork. the following statements indicate these estimates :—

(A) Year.	Amount of total rural debt of of British India. (in crores of rupees).	Authority esti-ing the debt.
1911	300	Sir Edward Maclagan
1924	600	Sir MalcolmDarling
1930	900	Indian Central Banking Enquiry Committee.
1935	1200	Dr. R. Mukherji.
1938	1800	Mr. E. V. S. Maniam.

(B) The following table indicates the provincewise distribution of debt.

Province	Total indebtedness in crores. of Rupees	Percentage of debt to the annual value of the agricultural produce.	Debt-Multiple of land revenue.
	——In Crores—	of Rupees	
Assam.	22	41	21
Bengal.	100	41	18
Bihar & Orissa.	155	129	—
Bombay.	81	53	15
Central Provinces.s	36	46	12½
Madras.	150	90	19
Punjab.	135	141	25½
United Provinces.	124	—	17

The above tables indicate a great variation in the table amount of indebtedness from province to province, and the debt is found to be more wide-spread in those provinces where the peasant-proprietor is more common than the tenant-farmer since the peasant--proprietor has to find finance for his occupation and for maintenance of a higher standard of living. In Madras, e. g. where the land values are higher than in Bengal the agricultural debt per head of the population was Rs. 46/-as against Rs. 32 in the latter province, (vide pages 44 and 45 of the Indian Rural Problem by Manilal and Anjaria). A noticeable feature is the tendency of rural debt to rise, which is the most disturbing factor of the agricultural situation in India. Still more serious is the fact that most of this debt is incurred for unproductive purpose. An estimate of rural debt in the Punjab puts only 5 per cent. of the total debt to have been incurred for productive purposes. One of the striking results of the growth of rural debt had been the steady transfer of land from the cultivator to the moneylender. It is estimated that during the decade from 1927 to 1937, 5 million acres of land passed from the agriculturists into the hands of non-agricultural classes.

4. **Trend of Indebtedness after 1930 :—**For the purpose of assessing the growth or otherwise of indebtedness during the period of 20 years subsequent to 1930 the two decades after the Provincial Banking Enquiry Committee may be divided into-

(1) The period of the depression until the commencement of world War II,

(2) The War period, and

(3) The Post-War period.

The general debt situation during the period 1931-39 was, according to the Rural Credit Survey Report, characterised chiefly by the inability of the cultivator to repay the principal amount of old debt in most cases and default even in the payment of interest charges to a certain extent. Fresh borrowing during this period would appear to have been reduced to a minimum. It is likely that the 1930's witnessed some expansion in the monetary burden of agricultural debt and the debt relief legislations enacted during the period made very little impressions on the general level of indebtedness.

Some attempts have also been made to assess the effects of World War II on the level of debt as a whole, and on the debt of various classes of cultivators. According to the Report of the Rural Credit Survey, three enquiries-one in Bombay, the other in Madras and the third in Mysore-which assessed the effects of War on indebtedness of agriculturists showed that the chief beneficiaries of the rise in prices of agricultural products during the War period were the more substantial cultivators. During the War there was no marked increase in the money--burden of debt even on small cultivators. The Bombay and Madras enquiries revealed that the average level of debt towards the end of the War declined from what it was at the beginning of the War in 1939, although in particular areas, as the Mysore enquiry showed, the smaller cultivator might have been adversely affected. It should, however, be remembered at the same time that the real burden of debt was reduced to a great extent as a result of the changed value of money. The Calcutta Index of wholesale prices stood at 141 in 1929 and it was 541 in 1951 and the tendency was towards a great rise during the two decades. The trend in indebtedness in the post-War period shows a decline about the year 1945-46, though much less is known definitely on account of insufficient data. The Rural Credit Survey committee observes :

'After 1943-44 and up to 1946-47 costs were catching up with prices and there was an evidence of stabilization of the position which meant no further rapid decrease in debt for all and perhaps an increaae in debt for some."

The data on outstanding debt collected through the enquiry conducted under the guidance of the Committee of Direction of the Rural Credit Survey showed that the most important characteritic was the small duration of a large part of outstanding debt in a majority of the disticts surveyed, even taking into consideration the limited nature of the data presented for enquiry. In the Punjab and Pepsu Regions alone, the debt outstanding for more than ten years exceeded 10 per cent. of the total debt. A possible explanation of this phenomenon is that these districts were not covered by the debt relief legislation of the 1930's because at the time they were parts of the Indian Princely States.

5. **Remedial Measures adopted :**—In order to assist the farmer to get himself out of the debt, three-fold remedial measures were adopted : (1) Legislation for the relief of debtors and for their protection against oppression and deceit by the moneylenders; (2) Grant of tagavi loans : and (3) Estabblishment of co-operative organizations-both for credit and non-credit purposes.

(a) **The Deccan Agricultural Relief Act, 1879. :**—In Bombay the agararian discontent had manifested itself in the murderous uprisings of a number of people in the Poona and Nagar Districts and the sowkars had been forced to surrender the bonds and other securities, which were openly burnt. As a result of of the recommendations of a Committee of Enquiry, the Government of India passed the Deccan Agricultural Relief Act for restricting alienation of land and restraint of usury. The Act authorised the Courts to go behind the contract and modify it if the contract rate of interest was found to be excessiveIt. prohibited the sale of land if it was not specifically mortgaged. All the mortgages were required to be in writing and moneylenders were required to furnish accounts and grant receipts. It protected the debtor from personal arrest and provided for the restoration of land to the debtor under certain circumstances. The agriculturist

could be declared an insolvent on application and provision was also made for the appointment of Debt Conciliators. The Act was amended in 1882, so as to provide for the redemption of debt before the due date mentioned in the bond and it further empowered debtors to sue for accounts without seeking redemption of mortaged land. Though the Act was well-intentiond, it proved on the whole ineffective, as the concessions given by it had been abused by the dishonest cultivators on the one hand, and its provisions had been evaded by the unscrupulous creditors in a number of ways on the other. The results of the Act were so disappointing that the Commission appointed by the Government in 1912 went to the length of recommending its abolition.

(b) **Amendments to the Civil Procedure Code :**—The Deccan Riots had forced the Government to realize that the system of enforcement of contracts had led to disastrous results, and that one of the parties to the contract was in a less advantageous position, to protect his own interests. Measures undertaken for the reform of the civil law had one object, viz., the substitution" for the blind and ruthless oppression of legal machinery, the intelligent dispensation of justice between man and man ". In the law then existing, there was no provision for a consideration of the history of the debt. There was also no discretion vested in the Court to change the rate of interest stipulated in the contract and there was also no provision to control the transfer of land passing into the hands of creditors in execution of decrees for debts. With a view to preventing the eploitation of the ignorant and illiterate cultivator by the shrewd moneylender, several amendments were effected in the Code of Civil Procedure. The tools, implements, the necessary cattle for tillage, the utensils and the farm-house were made non-attachable in execution of a decree against the agriculturist. He was also given the concession of repaying the debt in suitable instalments, nor could he be arrested on a decree of the civil court.

(c) **The Usurious Loans Act, 1918, and Regulation of Interest :**—Prior to the passing of this Act the Courts had no discretion to change the rate of interests tipulated by the contract between the parties. This lacuna had given a stimulus to the

usurious practiecs which had come into vogue after the decay of the rural community. Certain provisions to check these mal-practices in the Deccan Agricultural Relief Act and the Land Alienation Act proved abortive as the moneylenders had begun overwriting the bonds and underwriting repayments. So in 1918 the Usurious Loans Act was passed with a view to protect the debtors against hard and unconscionable bargains by empo--wering the court to reopen, on its own initiative, old transactions and to settle the terms equitably. The Act was found wanting and its utility was greatly reduced by two serious defects, viz., that it did not make it compulsory on the courts to reopen and examine all transactions which were unfair and it did not define also what a usurious rate of interest was. The provisions of the Act were to apply only to suits by creditors for the recovery of their dues. Thus the debtor could derive the benefit of the Act by driving the creditor to resort to the court by refusing to repay the debt. The Act was, however, amended in 1926, so as to enable the debtors to have recourse to law for relief. But it was found that even this Act could not afford the necessary relief, as the Courts could not give to it retrospective effect and they could reopen accounts under special circumstances only. The Central Banking Enquiry Committee made useful suggestions for remedying these defects and every province could carry out the recommendation either by amending the Usurious Loans Act or by including the necessary provisions in other Acts governing moneylending or debt relief. The new provisions made it compulsory for the courts to reopen past transactions and to decree interest at prescribed rates. But in several provinces a distinction was made between secured and unsecured loans, the former bearing a lower rate of interest than the latter, and charging compound interest was also prohibited in some of the provinces. In most of the provinces provision was also made for reducing payment towards interest by adopting the rule of Dam-dupat. Under this principle, a debtor in Madras was exemped from paying anything more towards the debt if he had in the aggregate paid an amount equivalent to twice the amount of the loan. In several other provinces also the payment of a sum greater than the amount of the principal towards arrears of interest was banned.

The following table gives the maxi'mum rate of interest chargeable under the various Acts in the various provinces.

Title of the Act	Secured Debts.		Unsecured Debts.	
	Simple Interest per cent	Compound Interest per cent	Simple Interest per cent	Compound Interest per cent
Madras Debtors Protection Act.	9	—	15	—
Punjab Relief of Indebtedness Act, 1934	12	9 with annual rests.	18¾	14 with annual rests.
U.P. Usurious Loans Act.	12	—	24	—
C.P. Usurious Loans Act, 1934.	12	10	18	—
The Bengal Moneylenders Act, 1935.	Cash 9 Kind 15	—	Cash 9 Kind 25	— —
The Bihar Moneylenders Act, 1938.	9	—	12	—
The Orissa Moneylenders Act, 1938.	9	—	12	—
Bombay Moneylenders Act, 1938.	9	—	12	—
Assam Moneylenders Act, 193.	9½	—	12½	—

Note:—These figures are taken from "Provincial Debt Legislation in relation to Rural Credit", by N. G. Abhyankar.

6. **Provinical Lagislations providing for Regulation of Moneylenders Accounts :**—The need for regulating the business of mon eylenders has been emphasised by the Royal Commission on Agriculture in India. The Commission had recommended the adoption of the principles underlying the British Moneylenders Act of 1927, and the Punjab Regulation of Accounts Act. In 1934 the Government of India convened a Conference of the representatives of Provincial Governments, and it was decided at the Conference that the matter relating to the regulation of business of moneylenders should be left to the discretion of Provincial authorities. Almost every province has passed a law since then to regulate the maintenance of accounts by the moneylendexs Under these laws certain obligations have been imposed on the creditors which are listed below :—

(1) Keeping regular record and maintaining the account of each debtor separately in the manner prescribed by the Government.

(2) Supplying each debtor periodically or on his requistion a statement of account in respect of each transaction and showing him the outstanding amount of principal and interest.

(3) To issue recipts for the amounts paid either in respect of principal or interest.

When the creditor does not maintain proper accounts, the courts are empowered to disallow the whole or part of the interest found due. In the Punjab, the penalty is the dismissal of the suits, while in Provinces like Assam, Bihar, Orissa, Bombay and Madhya Pradesh, the entry of a fictitious amount in excess of the true amount loaned out has been made an offence punishable with a fine. It may be noted that these Acts have not been generally successful because the moneylender tries to settle disputes without going to a court of law and where the debtor has had a recourse to at law court, his own ignorance has made it difficult for him to prove his case.

7. **Restrictions on Transfer of Land :**—With the passing of the Registration of Documents Act, 1874 and the Transfer of Property Act, 1882, the law was on the side of the moneylender in expropriating the cultivator all over India. By 1874 in the Punjab alone, it was reported that a million acres were mortgaged and by 1891 the figure rose to 4 million acres. Between 1875 and 1893, in the Punjab, according to an account given by Sir Malcolm Darling, the moneylenders acquired 11, 79,000 acres of land in different parts of the Province, and in the District of Gujranwalla they purchased over half the land sold during the period. The evil of mortgage debt and transfer of land assumed vast pro--portions and found expression in peasant revolts in some of the Provinces. As a result, Alienation laws came to be passed in some Provinces, of which the Punjab Land Alienation Act, 1901, is the most outstanding example designed to prevent the transfer of land from the agriculturist to the non-agriculturist classes. Under this law, the mortgagor can redeem his land at any time during the currency of the mortgage by depositing a certain pro-

portion of the money owed as the Deputy Commissioner might determine to be equitable, provided the mortgage was in the form permitted by law. In order to facilitate the redemption of other mortgages, the Redemption of Mortgages Act was passed. in 1913. This Act authorized the Collector of a district, on a representation made by the mortgagor, to summon the parties in order to make a settlement of the debt and to order redemption of the same if he were satisfied that the mortgagor had paid the mortgagee a proper sum on account of debt. These measures proved abortive because the law permitted the transfer of land from the debtor to a moneylender if he was an agriculturist. Nor were benami transactions brought under the purview of legislation. There were the transactions in which a professional moneylender got the land mortgaged in favour of another and received the rent through him. As a result of these laws, the monster fishes appeared in the agricultural community to swallow the smaller ones. The Land Alienation Laws were more or less availed of by the landlord to increase the areas of lands at the expense the agriculturist-cultivator. The failure of the laws was due to the fact that they were not sufficiently comprehensive. In 1938 two Acts were passed in the Punjab to amend the Land Alienation Act. One of these empowered the Deputy Commissioner to decide finally whether any person was deemed to be amember of an agricultural tribe for the purpose of the Act, and to set aside benami transfers which were intended to evade the provisions of the Act. The other Act was designed to check the permanent alienation of land to agriculturist-moneylenders by their debtors with a view to placing the former class in the category of non-agriculturists for the purposes of the Punjab Land Act in the matter of permanent alienation of land by agriculturists.

8. **Registration and Licensing of Moneylenders:** —As only a few cases came up before the Courts, most of the provinces sought to locate the moneylenders by making registration and licensing compulsory. for them. The "moneylender" is defined as a person who advances loans as a matter of business. In some provinces the definition of a moneylender included pawn-brokers as well. Moneylenders who did not hold registration certi-

ficates were debarred from enforcing their dues in a Court of Law, or they were made liable for severe penalties. Penalties were provided for carrying on transactions without obtaining the necessary licence. The working of the Act in the Punjab showeed some surprising results. A small number of money)lenders-9206-out of about 55000 in the Province registered themselves in 1939. These Acts have not been as effective as was expected, because the definition of the term ' moneylender ' is not sufficiently comprehensive to include all the moneylenders. Besides, specifictypes of loans have also been excluded from the operation of the Act, providing a way of escape for many moneylenders. The Gadgil Committee suggested that the law regulating moneylending should be improved to make it more effective. For this purpose it recommended that Acts in all the Provinces should provide for the following :—

(1) Regulation and licensing of moneylenders.

(2) Maintenance of accounts in a prescribed form.

(3) Prohibition against showing in books of accounts or in any other document a sum larger than what has been actually lent.

(4) Furnishing a periodical statement of accounts to the debtors.

(5) Furnishing of a statement to the debtor in prescribed form giving full particulars about each loan as and when advanced.

(6) Issue of receipts to the debtors for every payment received.

(7) Limitation of the rate of interest.

(8) The enforcement of the rule of dam-dupat.

(9) Prohibition against taking unlawful charges for expenses.

(10) Provision to entitle a debtor to deposit at any time in a court of law an amount in part or full payment of loan to be paid to his creditor.

(11) Prohibition of a contract for payment of loan outside the Province.

(12) Institution of suits by debtors for taking accounts and for having amounts due from them determined.

(13) Protection of debtors from molestation and intimidation.

(14) Infringement of the provisions of the law to be made a criminal offence punishable with fine, and in appropriate cases, with imprisonment.

The Committee further recommended that (1) the definition of a 'moneylender' should be made more comprehensive so as to include all loans bearing interest. Only loans advan ced by institutions such as Government Co-operative Societies and loans made by all scheduled banks and such non-scheduled banks as fulfil certain prescribed conditions, should be exempted.

(2) The maximum legal rates of interest on loans should be fixed with great caution. No uniform rate should be sti--pulated but a schedule of rates sufficiently detailed to meet variations in conditions should be carefully worked out and included in each Act.

(3) A State Inspecting and Supervising Agency similar to the one functioning under the Small Loan Legislation in the U. S. A. should be set up in each province. It should carryout periodical and surprise inspection of the books of moneylenders. Every moneylender should be required to submit to the Agency annual returns regarding his business. The Agency should publish periodical reviews of the effects and working of Debt Acts.

(4) Regulation of Moneylending should be accompained by a regulation of Agricultural Marketing, not only inside the markets but also outside them. All marketing agencies should be required to maintain proper accounts and give to the seller vouchers and a statement in prescribed form.

(5) Regulation of Mortgages is equally necessary to build up a sound system of agricultural credit. All usufructuary mortgages which do not provide for atubomatic redemption within

20 years should be prohibited by law. In the case of simple mortgages, sale of land should be made void and the mortgagee should be entitled to possession for use for a total period not exceeding 20 years to recover the amount remaining to be paid and the mortgagor should have the free option to convert at any time the simple mortgage into a self-linquidatiing usufrucfuary one. Specific classes of institutions like Co-operative Land Mortgage Banks, should be exempted from the regulations on mortgage lending.

9. (a) **Moratorium Laws :**—The advent of the economic depression of the 1930's necessitated some measures of relief in addition to regulation of the business of moneylenders. Owing to a catastrophic fall in their purchasing power the agriculturists could hardly secure a subsistence income from the land. One of the earliest of the measures adopted by the Provincial Governments in order to prevent the imminent danger of their lands being sold at depression prices to the creditors in execution of decres was the passing of Moratorium laws during the period of formulation of Debt Relief measures. In Uttar Pradesh, early in 1932, the Government notified that all cases where the Courts had decreed that agricultural lands be sold, should be transferred to Collectors for execution. The Collector was empowered to postpone all sales where the price offered wss found to be unfair. In the following year another Notification was issued laying down what was to be considered to be fair price. This resulted in holding up 48000 decrees, while the Debt Relief Act was under discussion. The U. P. Temporary Regulation of Executions Act of 1934 was passed with a view to staying the execution of proceedings against judgement-debtors who were agriculturists Under the Act, the small agriculturist could stop the execution of decrees passed against him and apply for a revision of the decreed amount. Provisions were made in the Act for the scaling down of the debts due from the small farmer to 40 to 50 per cent. of the amount due and for repayment of the debt in five equal instalments. With a view to extending this relief to tenants and smallholders, the Postoponement of the Execution of Decrees Act was passed to prevent the rush of creditors to Courts of Law. All pending and fresh applications for

execution were stayed for six months in the case of agriculturists who paid as land revenue less than Rs.1000/- and who were not assessed to income-tax. Those who paid a land revenue of Rs. 250/- could get execution proceedings stayed only by depositing 20 per cent. of the amounts for which the decrees were passed.

(b) **Bombay Small-Holders' Act, 1938 :**—In Bombay the Government passed in 1938 the Relief of Smallholders Act, enabling the agriculturist-debtors to secure protection and the tenants their tenancy rights by staying execution of decrees on debtors' properties and by preventing eviction)by landlords. Under the Act only those who had lands not exceeding 6 acres of irrigated land or 18 acres of unirrigated land or holders of any kind jo land which was assessed at or below Rs. 30/- were termed smallholders. The Act was to remain in force for one year. All execution proceedings for the sale of land were to be stayed if the debtors paid merely the interest on the same for which the land was to be sold. Other provisions in the Act were more or less on the lines of the U. P. Act.

(c) **Madras Agricultural Relief Act, 1938 :**—In Madras the Government introduced a Moratorium Bill in Octobr 1937 but replaced it by a Debt Relief Act in March 1938. This Act invalidated all the proceedings taken by the Courts during the period between the publication of the Moratorium Bill and the passing of the Agricultural Relief Act. It also provided for revision of decreed amounts on application of the judgment-debtor. All sales of land in execution of decrees during the period were also to be set aside. If the sale had already taken place, the debtor could get back the land by refunding payment, provided the judgement-debtor applied to the Court within 90 days of the Commencement of the Act.

(d) **Moratorium Act in C. P. :**—In the Central Provinces the Government notified that the sale of land during 1933 and 1934 should be restrcted to unavoidable cases. Instructions were issued to the Conrts to the effect that surplus crops and cattle only should be attached after exempting the requisite number of cattle and the necessary quantity of seed-grain, produce and fodder needed till the next harvest. In 1938, an Act on the lines of the U. P. Act was passed declaring a Moratorium. In the remaining pro-

vinces, the Debt Relief Act provided for stay of proceedings in suits and execution of decrees on the application of the debtors for conciliation of debts and thus granted a moratorium in repayment. The period of moratorium varied with the time taken by the Conciliation Boards to settle the debts.

10. Debt Conciliation Acts in various Provinces :—In order to bring about an amicable settlement of debts, Debt Conciliation Acts were passsed in various Provinces and States. Under these Acts, Conciliation Boards were set up for adjusting the available assets of the debtors to the total debts and facilitating repayment in a reasonable number of instalments with the consent of the creditors. The Boards consisted of not less than 3 and not more than 12 members and had representatives of both the moneylending and borrowing classes. The Acts defined the class of agriculturists who could apply to the Boards for the conciliation of their debts. Thus in Bengal the Act was restricted to ryots whose primary needs of livelihood was agriculture and to those who cultivated the land themselves, or by members of their family or by hired labour or by produce-sharing tenants. Debts owed by the agriculturists to some agencies were excluded from the jurisdiction of the Boards. For example, debts due to the co-operative societies were excluded by the Punjab Act, while inother Provinces such as C. P. Madras, Assam and Bengal, they could be settled by the Debt Conciliation Boards with the previous consent in writing of the Registrar of Co-operative Socieeties. Similarly debts due to Banks were excluded from the Debt Conciliation Boards in Punjab and Bengal. The inability of debtors to give the names of creditors made conciliationof debts more difficult, since it would have been unfair to cancel the debts due to creditors without giving them due notice. Again, bogus transfers and false mortgage deeds came in the way of settlement of debts as the Boards had no power to dismiss such applications, Moreover, the Acts did not provide for the conciliation of debts of a joint debtor, unless all the co-debtors applied. In case of disputed debts, the Board was no doubt authorised to decide the cases, but its decision was not made binding. In case where the debtor showed reluctance to come to settlement because of too much love of his land, if it involved transfer of land, or

where the creditors showed reluctance to compound their debts because they had got in their possession decrees of foreclosure or where the debtors were over head and ears in debt or where the debts were supported by defective documents, applications were rejected by the Board. In Bengal it was noticed that the conciliation boards consisted of illiterate persons who could not understand intricate questions of law. In a few cases the boards were found to be inefficient and corrupt. Thus the scope of conciliation measures had been to a great extent limited. The procedure adopted by the Conciliation Boards was as follows. Any agriculturist-debtor could apply for a settlement of his debts if he was entitled to relief under the Act. The Conciliation Board then called upon every creditor to furnish to it a statement showing the debt due to him, within a specific time with proof of the debt such as an entry in the books, documents etc. Then the Board persuaded the parties to come to an amicable settlement. If agreement was reached with creditors to whom a a certain minimum percentage of the total debts was owing (e.q. 40 % in C. P. and 50 % in Madras), the agreement was reduced to writing and was required to be registered within a month, and it then took effect as a proper decree of the civil Court. The Boards were empowered to fix the number of instalments in which the conciliated debts were to be repaid. But they had no power whatever to compel creditors to agree to a settlement. Still, however, in order to prevent the refractory creditors, certain disabilities were imposed upon tnem e. g. creditors who refused to agree to the decision of the conciliation board were not allowed the cost of the suit and could not recover simple interest in excess of 6 per cent,. while those of the creditors who accepted the compromise were given priority. The Debt Conciliation Boards were almost in all Provinces authorised to issue a certificate to the debtor to the effect that the creditor had refused a fair offer. When such a certificate was issued the creditor was under a disability in recovering the debt as mentioned above. In order to persuade the creditors to come to an amicable settlement, they were given a prior charge on the properties of their debtors up to the amount conciliated and helped in recovering their instalments due to them through the machinery of the Revenue officers. The working of these Boards in the Central. Provinces, Punjab and

Bengal brought considerable amount of relief to the agriculturists. In the Punjab it is reported that during the year 1940 Conciliation Boards disposed of nerarly 23000 applications involving Rs. 91.45 lakhs, of which the debtors agreed to pay Rs. 35.85 lakhs. Debts admitted on creditors' applications were for Rs. 14.42 lakhs, of which the debtors agreed to pay Rs. 4.19 lakhs only. In Bengal till the end of March 1944, debts amounting to Rs. 5 crores were scaled down all over the Province, representing a reduction of 64 per cent. In the Central Provinces and Berar, the Boards were able to settle debts of Rs. 1561.02 lakhs to Rs. 774.85 lakhs, i.e., to an amount equivalentk a little less than 50%. The Relief Courts establishedin Madras and Central Provinces scaled downc laims of Rs.931.21 lakhs and Rs.428.09 lakhs, to Rs.444.0 lakhs and Rs.299.8 respectively. From the data collected by the Agricultural Credit Department of the Reserve Bank of India, it appeared that according to some of the Provincial Governments the Debt Acts had weakened the sense of morality of the people and in many cases agriculturists with sufficient repaying capacity were holding out in the hope of getting further concessions. The rise in agricultural prices changed the position, and it is reported that the better class of agriculturists who have benefited from it has liquidated their debts on a large scale. Compared to the mass of the existing debt the work of the Conciliation Boards could not touch even the fringe for various reasons. In the first place, conciliation is a voluntary method securing to the debtor some relief without infringing the rights of the creditors. Secondly, the Debt Conciliation Boards could do little when the creditors were unreasonable and refused to accept the compostion of debts due to them. Thirdly, the penalites provided proved abortive in the case of creditors who had lent monies on the security of immoveable property, which they could attach and bring to sale if the debtors failed to pay. Thus only unsecured debts could be scaled down. Fourthly, many of the debtors failed to approch the Boards, as they were reluctant to incur the displeasure of their creditors who were their main source of credit. Lastly, the Debt Conciliation machinery was slow and uneven and inefficient, as was the case in Bengal already referred to. For all these reasons, there was an increasing demand for scaling down of debts by compulsory legislation.

11. **Compulsory Scaling Down of Debts:**—The scope of voluntary settlement of debts being limited, relief was sought to be given through compulsory reduction in debts due to the creditors. Here Madras led the way with the Agriculturists Relief Act of 1938. The Act made a clear distinction between debts incurred before 1st October 1932 and those incurred on or after that date The claims with regard to the former were drastically scaled down which prohibited the creditor from recovering in the aggregate more than twice the original loan. If the agriculturist had paid twice the amount of the principal either by way of interest or of principal or both, the entire debt was wiped out. Where repayments were less than twice the amount borrowed, only the balance was to be paid. All arrears of interest outstanding on 1st October 1937 on debts incurred prior to 1st October 1932 were wiped out and only the principal was deemed payable. Interest on debt incurred after 1st October 1932 could not exceed 5 per cent till 31st October 1937, while interest on all decrees from the latter date was fixed at 6%. The Act also gave relief to the indebted tenants with regard to rent debts. All arrears of rent, except those of the two years preceding the enactment of the Act, were cancelled, if the latter were paid by September 1939. Sale of moveable or immovable property could be set aside if made in execution of a decree after the 1st October 1937. The Act resulted in considerable benefit to the agriculturists, as it is reported that by September 1941 more than 168,000 cases had been disposed of involving 652 lakhs of rupees of debts which were scaled down to Rs. 346 lakhs. In the Central Provinces and Berar, the Debt Relief Act was passed in 1939 and the main feature of the Act was the scaling down of the debt and granting relief to the debtors in respect of their dues on the basis of fall in prices since the depression. The principal of the debts prior to 31st December 1935 was to be reduced by 30 per cent, of those incurred between that date and 31st December 1929 by 20%, while those between the last date and 31st December 1931 by 15%. Debts incurred subsequently were not to be reduced. The payment of interest was not to exceed 6% in the case of secured and 9% in the case of unsecured loans, while the payment of compound interest was restricted to 4% with yearly rests. The Debt Relief Courts established under the Act were empowered to reopen all transactions made 13 years before the last transaction

or before 1st January 1932, whichever was earlier. The object of the Act was to give relief to the average and not rich cultivators and it excluded from its ambit agriculturists whose debts exceeded Rs. 25,000/-. The U.P. Agricultural Debt Relief Act of 1939 prescribed that loans taken before the Act came into force should bear a certain scheduled rate of interest from 1st January 1930 till such date as might be fixed by the Local Government. Any judgment debtor whose decree had not been executed could apply for revision. The excess paid under interest was to be appropriated towards principal. The Act empowered the Courts to decree a claim by way of principal a sum not exceeding twice the amount of the principal less all payments received by the creditor in the past in respect of those transactions.,The lands of tenants who were protected could be taken possession of by creditors as a usufructuary mortgage only. The Bombay Agricultural Debtors Relief Act was passed in 1939, but put into operation as an experimental measure in a few talukas in the three linguistic Divisions of the province, viz., Karnatak, Maharashtra and Gujerat. The Aet provided that every debt in respect of which no application for settlement is made within one year was deemed to have been duly extinguished. Debt adjustment boards were set up working under the control of Civil Courts. The Act provided for the scaling down of debts according to the debtors' repaying capacity, as ascertained by the Boards which were authorized to compel the creditors to accept the scaled down debts. It provided for the compulsory scaling down of debts not exceeding Rs. 15,000/- of cultivating agriculturists. If the debtor failed to apply, every creditor had to apply to the Board on pain of the debt having been discharged during one year. The Government, the Local Bodies and Co-operative Societies were required to reduce their claims against a debtor and intimate to the Board the debts due to them and the amount of the remission they were prepared to give. For loans borrowed before 1st January 1931, separate accounts of principal and interest were to be made up to 1st January 1931 and the principal and the interest dues were each to be reduced by 40% or 30% according as the loan was advanced before 1st January 1930 or between 1st January 1930 and 1st January 1931. In the case of loans borrowed after 1st January 1931 only interest was to be reduced to a prescribed schedule. The amount so arrived

at was to be further reduced to the paying capacity of the debtor which was to be the aggregate of the following:—

(1) If the total secured debt was less than 80% of the value of the immovable property, subject to the liability of the secured debts, the difference between the amount of the debt and 80% of the value of the property.

(2) 80 per cent of the value of the immovable property not subject to the laibility of the secured debt; and

(3) 80 per cent of the value of other assets. If the market value of any income-yielding assets was not known, it was taken as equivalent to the income capitalised at 6 per cent per annum. After assessing the debtor's paying capacity the debts were reduced pro rata as follows :—

(*i*) If all the debts were unsecured, they were reduced to the value of the paying capacity.

(*ii*) If all the debts were secured, and their total exceeded 80% of the value of the debtor's property, they were reduced to 80% of the value of such property.

(*iii*) If debts were both secured and unsecured and the secured debt exceeded 80% of the value of their security, the secured debt was reduced to that figure and the unsecured debt was reduced to 80% of the value of the remaining property.

After reducing the debt to the paying capacity of the debtor, the Board made an award for the repayment in instalments.,The total annual instalments could not exceed 25 in number and each instalment should not exceed the debtor's net annual income. The net annual income was taken to be the balance of annual income left after making deductions for maintenance of himself and dependents and for repayment of loans borrowed for the financing of crops, and of debts due to Government and Local authorities. The creditors had the option to receive the adjusted debts in instalments spread over a period not exceeding 25 years or receive immediate payment in Government guaran teed bonds to be issued by the Provincial Land Mortgage Bank or other authorised Banks in case the creditors agreed to reduce the amount further, so as

not to exceed 50% of the value of the immovable property of the debtor. The Board might order the sale of the debtor's property at any time during the proceedings before it if it was in the interest of the debtor to do so. Appeals against certain dcisions and awards of the Boards were allowed to a Civil Court. A debtor against whom an award had been made could not borrow in future except from authorised sources. The Act was amended again in 1945 to rectify certain defects and was made applicable to more areas. In the opinion of the Gadgil Committee the Act broke away from the depression complex to a considerable extent and tried to tackle the problem of rural indebtedness as a whole and not merely to grant immediate relief. It tried to prevent the reemergence of debt to private money-lenders, by preventing the alienation of the standing crops or the produce of the debtors who have secured relief without the previous sanction of the crop financier. It has already been mentioned that the Act was put into operation in a few talukas in the first instance. Two talukas were selected in 1942 in each of the eight districts of the Province, viz., Panch Mahals, Surat, Thana, West Khandesh, Poona, Sholapur, Dharwar and Bijapur, and eight Boards were established at Bulsar-Pardi, Dohad-Zalod, Dahanu, Nandurbar, Pandharpur-Sangola, Khed, Indi-Sindgi, Nargund-Navalgund. More than 17000 applications were received by these Boards and over 10000 of them were decided up to June 1945. The total amount of debts involved and the numbre of applications received was 68,78,237 and the amount by which these debts were reduced was Rs. 27,33,283. The provisions of the Act were further extended and 43 new Adjustment Boards were established with effect from 1st May 1955, thus bringing the operation of the Act in 96 talukas and petas of the Province.

12. **Miscellaneous Measures:**—In addition to the above measures, for the voluntary or the compulsory scaling down of debts, other measures were also adopted for the protection of the interests of agricultural debtors.

(*a*) *Fixation of a Fair Price for Land*—Some of the Provincial Acts have authorized the Courts of Law to fix a fair price for lands sold in execution of decrees against agricultural debtors with the object of preventing creditors from taking over lands at very low

prices. Provisions to this effect exist in the U.P. Agricultural Debt Redemption Act and the Bihar Moneylenders Act.

(*b*) *Extinction of Mortgages:*—The principle of automatic termination of mortgages has been introduced in the Punjab, Bengal and U.P. where it is prescribed that the land of the mortgagor should revert to the borrower free from all encumbrances after a period of 15 to 20 years irrespective of the fact whether the debtor had fully repaid the debt or not.

(*c*) *Amendments to Insolvency Acts:*—There are a number of cultivators who are beyond any hope of being rehabilitated, to whom only insolvency provisions are the correct remedy. The provisions of Insolvency Acts were amended in some Provinces for the benefit of debtors who were beyond redemption and hopelessly involved. Under the provisions of the Bengal Debtors Act, 1935, a Conciliation Board could declare insolvent an agriculturist-debtor who was unable to pay off the scaled down debts. The lands of the insolvent debtor are sold out, leaving for him only a portion of the property including a dwelling house. The recommendation of the Royal Commission on Agriculture to the effect that in the case of debtors whose debts were less than Rs. 500/- should be enabled also to have recourse to the Act, if they were unable to pay off the creditors was given effect to by the Governments, of C.P., Punjab and Bihar also.

13. **Limitations of Debt Legislation and its Effects on Credit Machinery:**—All schemes of debt relief are, it may be noted, mere palliatives and they do not go to the root causes of a large mass of unproductive debt which acts like a millstone round the neck of the agriculturist-producer. They are inadequate in themselves to tackle the evil of indebtedness. The money-lenders' business may be regulated, debts may be conciliated or wiped out or scaled down, but they are bound to emerge again unless the agricultural economy is so rehabilitated as to convert the occupation of farming from a deficit to atleast a self-supporting, if not to a more profitable basis, through comprehensive reforms, as has already been indicated in a previous chapter. In order to correct the maladjustment of consumption to production, schemes have been

formuloted more recently through Community Development Projects and National Extensiion Services. Thenumerous debt relief Acts have led to the shrinkage of credit in the rural areas. The agriculturists are greatly h dicapped by the curtailment of credit facilities which were available to them prior to these Acts. The erstwhile favourable money-lenders had become disinclined to support the agriculturists except in the case of old and trusted clients and have restricted their lendings to a minimum. Thus the only source of obtaining credit has been practically closed and the agriculturist has been said to be without a rudder or a compass. According to K.G. Shivaswamy, as a result of the passing of the Madras Agriculturists' Relief Act, a small or an uneconomic holder agrees to an inflation of the amount of the principal of the loan he borrows in order to compensate for the loss that accrues to the creditor by the low legal rate of interest fixed. The agriculturists who have excess lands mortgage them with possession, thereby evading the calculation of interest at the rates statutorily fixed.Payment of interest in kind is also stipulated in certain cases. Thus the debtor and the creditor combine to get round the provisions of the legislation and a certain amount of demoralization sets in. Unless alternative sources of credit are available to the agriculturist on reasonable terms, mere legislation to protect the interests of the agriculturists from the exploitation of the money-lenders is not likely to be really effective. Another effect of the debt legislation has been a feeling of disregard on the partof the agriculturists towards their obligations in the form of law fullycontracted debts. This is because frequent interference of the Government in the affairs of the cultivator is apt to induce him to dishonour his obligations. The serious breaches of morality in credit transactions will have to be checked by strict enforcement of rules to recover debts that are settled. A blot on the debt legislation in different provinces is that it has not provided for the repayment of the scaled down debts. It is obvious that if the scaled down debts are to be repaid in a number of instalments, the agriculturists will surely be benefited. Another effect of the various measures was the decline in the number of unsecured loans. They made the moneylenders extremely cautious and tangible security was demanded in every case before any loan was advancd A mortgage on land or even a conditional sale was usually insisted on.

14. **Grant of Taqavi Loans:**—Government assistance to the agriculturist has taken the form of taqavi loans since very early times. These loans are granted for specific purposes under the Land Improvmetns Loans Act of 1883 and the Agriculturists Loans Act of 1884. As already mentioned, the former Act is intended to provide long-term loans for effecting permanent improvements on lands which add to the letting value such as construction of wells, tals or protective bunds against soil erosion etc. The maximum period of repayment of loan under the former Act is fixed at 35 years, but in acturl practice, the period does not ordinarily exceed 20 years. The rate of interest to be charged on loans is dependent on the rate at which loans are issued by the Government at the particular time in the market. The provision of long-tesm finance under the Act has been little availed of by the agriculturists and the amount utilized each year is estimated at about Rs. 35 lakhs for the whole of India. Under the Agriculturists Loans Act, 1884, short-term and medium-term loans are granted for current agricultural needs such as seed, manure, implements, cattle and for reclaiming or rebuilding houses destroyed by floods and for relief of distress in famine areas. The main advantage of the Taqavi loans lies in the fact that they are granted for long-term and fairly low rates of interest are charged thereon as compared to the rates charged by the money-lenders. The amount granted under the Agricultural Loans Act is estimated each year at about 50 lakhs. During 1937-38 Rs. 75.50 lakhs were advanced under both the Acts together, and less than Rs. 10 lakhs were advanced under the Land Improve-ment Loans Act. It is reported that in the Punjab and C.P. only about a lakh of rupees is advanced each year, while in other Provinces such advances do not exceed a few thousand rupees. In the year 1947-48, operations under both Acts were as shown in the following table:—

Province.	—Amount advanced	Amount repaid.
	Rs.	Rs.
1. Bihar	— 18,15,328	— 1,50,000
2. C.P. & Berar	— 1,30,27,480	— 46,38,018
3. Orissa	— 11,09,343	— 20,29,531
4. East Punjab	— 12,41,819	— N.A.

The Central and the Provincial Banking Enquiry Committees pointed out certain defects in the working of Taqavi system of loans and one of the most important drawbacks being the delay in the grant of loan and levy of illegal gratification, by the subordinate Revenue officials, who invariably exact their commission from the borrowers. This naturally adds to the cost of the loan, The U.P. Banking Enquiry Committee estimated that the effective cost of the loan was not less than 25 per cent. The extreme strictness in the recovery of the loans has also been responsible for the unpopularity of this system. These loans are advanced for specific purposes, while the agriculturist wants loans for all and sundry purposes. Agriculturists are by and large disinclined to offend the moneylenders by resorting to Government for the supply of finance needed by them. The Rural Credit Survey Report says that "the taqavi system of loan is characterized by inadequacy of amount, inequality of distribution and inappropriateness of basis of security. According to the Report, the All-India average for borrowings of cultivators from Government, as a percentage of their total borrowings, is as low as about 3 per cent. In practice, the taqavi is a little else than ill-performed disbursement of inadequate monies by an ill-suited agency and the record of taqavi is a record of inadequacies." "This inadequacy of finance, "the Report goes on to add, "is often inherent in the rules of State Government, which, in their turn reflect the smallness of the financial resources which State Governments can spare for this purpose. In one State, e.g., the rule is that "In case of short-term loans, the average loan per head should not exceed Rs. 15 and the maximum should not exceed Rs. 25 in any individual case."

Thus the Government loans are ridiculously inadequate as compared to the general needs. Further, the distribution of taqavi is in favour of the big and large cultivators. Moreover the revenue official is over-worked and has multifarious duties to perform. He has neither the time nor the inclination nor the training to bring to the whole-time task of supervision of credit. Along with the lack of supervision and general lack of efficiency of State credit. there is also a lack of co-operation between the different departments connected with the operation of the system of taqavi loan and the resultant administrative overlapping and

wastage are obvious. An ex-Registrar of a Part A State observes in this context : "Government schemes of agricultural credit are in many respects neither co-ordinated with one another nor with similar operations of co-operative institutions. For example, both the Revenue and the Agricultural Departments provide agricultural finance. Again, these agencies operate in areas served by co-operative institutions and advance loans for the very purpose for which co-operative agencies can and do advance loans at rates lower than the co-operative agencies. Thus there is duplication of agencies, duplication of finance and a variety of rates and terms of loans for different types of agricultural credit."

15. **Conclusion**:—If the appalling poverty of the agriculturist is to be completely wiped out, it is necessary that measures to increase the yield of the land should be popularized. Better methods of farming, and the economy of better implements should be popularized among the agriculturist. Minor irrigation works should be provided with a view to giving the agriculturist more irrigational facilities. Fragmentaion and sub-division of holdings that retard agricultural development can be overcome by the formation of land consolidation societies and co-operative farming societies. Subsidiary industries will reduce the pressure upon land and would increase the incomes of the family. Cottage industries organized on co-operative lines would be effective in curing to some extent the inevitable seasonal unemployment of agriculturists. One cannot conceive of proper results of these reforms unless proper marketing facilities are offered all-round to the farmers. To save the agriculturists from the clutches of moneylenders, it is necessary to inculcate habits of thrift among them. False notions about status would have to receive a new orientation. In short, the agriculturists have to be saved from the tyranny of custom. It would be seen that the problem of rural indebtedness cannot altogether be solved by a single remedy, viz., debt legislation. Various redmedies have been suggested in the Rural Credit Survey Report, a summary of which will appear in a subsequent chapter. Suffice it to say at this stage that what we require is a many-sided policy to be initiated by Government and a better system of production and distribution is equally urgent.

'His speech is mortgaged bedding,
On his kine he borrows yet,
At his heart is his daughter's wedding,
In his eyes fore-knowledge of debt.
He eats and hath indigestion,
He toils and he may not stop,
His life is a long drawn question,
Between a crop and a crop."

—Rudyard Kipling.

CHAPTER III

CREDIT FOR AGRICULTURE.

1. **Characteristic Features of Agriculture which affect the Provision of Credit:**—Agriculture has certain characteristic features of its own which distinguish it from other industries. It is necessary, therefore, to understand and get acquainted with these characteristics as they give rise to specific problems and set limits to their solution. Agriculture is regarded as a partnership between man and nature in which man proposes but God disposes. To a certain extent man may improve natural conditions by artificial means such as irrigation, change in temperature etc. But it may be noted that they work up to a certain limit only beyond which they put a limit to a man's enterprise, with the result that vast stretches of land have remained beyond redemption or reclamation for any form of cultivation.

(a) Agriculture is a unique industry that combines a mode of life and an occupation. It is, in fact, an integration of the home and business. The farm has a residence for the farmer from which be devotes himself to agricultural operations; Further, the members of the family who work along with him on the farm are but an integral part of the farm and assist the farmer not only by putting in their labour but also by tendering advice to him as to how best the operations should be carried out. The output of the farm is scarcely divided on a pro rata basis. Certain items of expenditure are common to the farm and to the family of the farmer. Most agricultural products fall in the category of joint products and the separation of cost for each unit of production becomes pretty difficult. Thus the farm and the farmer's family are an inseparable unit Thus agriculture stands in contrast with a capitalistic enterprise in modern days. The capitalistic enterprise uses hired labour and the requisite equipment and material are purchased in the open market, and it has to meet day-to-day expenditure, which is not the case in agriculture.

(b) **Self-sufficiency in Agriculture:**—Although agriculture is no longer carried on on a subsistence basis in the evolution of modern farming, self-sufficiency still persists to some extent and is not totally removed. It is partly self-sufficient in regard to food, shelter and fuel. In commercial farming, improved seeds are purchased in much larger quantities, though most farmers try to stock their own seed by retaining a part of their crops for seeding purposes. Fertilizers are also being used in larger quantities than before. Lastly, much of the motive power that is utilized is derived from work-animals, though mechanical appliances are coming into greater use in the case of larger-sized farms.

(c) **Combination of Ownership and Management:**—In agricu'ture, the farmer who is the owner cultivates the farm and looks to its operations himself with the assistance of the members of his family. Thus the functions of ownership and management are combined in one and the same person and are in sharp contrast with commercial and the industrial undertakings, in which the manager and other persons on the mangerial and technical staff that are needed are hired by the proprietors or the owners.

(d) **Agriculture-a Complex of many industries.**—A distinguishing feature of agriculture as an occupation lies in its many-sidedness. It is in itself a complex of many industries. The farms may vary in size from country to country. There are also variations in methods and teehnignes followed dependent upon tradition, economic need and local environment. Farms may also be divided ihto various categories or groups such as farms for dairying, farms for cattle and sheep breeding, farms for grain-growing, farms for fruit-raising etc., and specialization in agriculture is less pronounced than in industry, and each farm has its own problems to tackle. Again, the size of the farm, the form of land tenure and method of praduction differ largely from country to country, and give rise to different kinds of relations between farmers on the one hand and middlemen, manufacturesrs and consumers on the other. This complex nature of agriculture and wide variety in organization and methods and technique make the provision of credit to agriculture comparatively more difficult than the financing of industry and trade in general. Again, as the process of production is spread over a long period and as

natural factors largely enter into agricultural operations, the risks involved are greater and often beyond human control. The great difference in conditions in which agriculture is carried on make the supply of credit and assessment of risk and security also mere and more difficult, unless a special machinery is devised.

(e) Agriculture is a business of small units. In agriculture, the unit of organization is generally small. When we speak of a large or a small farm, we have inour mind its area. More area of course is no indicator of the relative importance and productivity of two farms. Proximity to markets, fertility of the soil, intensity of cultivation, availablility of water or the nature of the crop grown would form a better index of their relative importance in point of productivity. It may be noted that area is a better yardstick for comparing the size of farms. Large-scale farming is defined by Prof. Carver in his "Principles of Rural Economics" as "Farming where there is land enough, capital enough and men enough employed to make it economical for the Manager to give his whole time to the work of supervision and management, all the manual work being done by employees working under his direction." The typical farm tends to be everywhere smaller than the representative factory, if it is considered from the point of view of the amount of capital and labour employed and the value of annual output. There are two factors which limit the scale of production in agriculture. Firstly, the size of the business unit in farming is small and secondly, owing to seasonal nature of production in agriculture, there is the discontinuous output. In sharp contrast with this, large-scale production in inducstry depends upon continuous production of a single commodity. Labour and capital in urban industries can be concentrcted in a very small area, making supervision a comparatively easy affair while in agriculture, discontinuous ouptput is the greatest hurdle in converting agriculture into a large-scale industry. The farm is normally accustomed to produce several products instead of a single product unlike in industry. This diversification in agricultute is forced on the farmer, as a result of which he cannot use specialised machines or resort to division of labour.Hence in agriculture the division of labour and continuous output-which are fundamental to large-scale industry-are lacking. These of course react unfavourably on the provision of credit.

(f) **Lack of Associative Action among Farmers:**—Examples of combination in industry are numerous, for securing a common purpose, while they are rare in agriculture. In the words of Belshaw, "The difficulties of combining a large number of isolated and comparatively non-specialized individuals operating on a small scale into organizations to express some common purpose are obviously greater than those in effecting combinations of large concerns with similar and specialized functions. There is the added difficulty that the nature of farm economy develops social characteristics and habits of mind that raise a barrier to corporate effort. The details of the farmer's craft are so numerous and varied and his productive effort is so much less specialized than that of the industrialist that the advantages of combination are less obvious tohim even as his difficulties are correspondingly great. The farmer becomes more self-sufficing, more indiviudualistic and is loath to delegate authority to others." Even where associative action on the part of the farmers is known to be profitable as, for example, in the case of co-operative marketing of agricultural products or obtaining cheap credit, combination has not yet become common. Thus the economic integration of the rural community has become difficult to achieve.

(g) Farming is an occupation subject to great risks. There are various kinds of risks implicit in agricultural operations and it it difficult to foresee them and provide against uncertainty either in the production of the crops or in their storage or marketing. In the first place, agriculture is subject to damage from drought, excessive rainfall, floods, insect pests, plant and animal disesases, defective seed etc. Hence unlike in urban industries in which many risks are insurable, the farmer finds it difficult to get adequate protection at a reasonable cost, because what is known as farm insurance is largely confined to fire insurance and hail-insurance. General farm insurance as such is still unknown. Belshaw classifies the risks of farming into two broad categories, viz., (1) technical risks and (2) commercial risks. Technical risks arise out of the operation of natural forces and the nature of farm products. A manufacturer is able to plan ahead and varies his productive effort to suit changes in demand. In agriculture, on the other hand, changes in weather, recurrence of diseases and pests introduce an element of chance into the operations of the agriculturist. A

farmer's efforts to reduce output may be defeated by bumper yield of crops brought about by favourable weather conditions. Thus the yield of crops is less dependent on intensity of effort on agriculture. Again, the farming operations are determined from day-to-day by conditions of the weather, vis-a-vis the soil and the stage of development of the crops of the agriculturist. This necessitates close attention on the part of the farmer to the minute details of his job. The constant necessity to be on the watch leaves very little time to the farmer to devote his attention to the performance of the function of marketing his products or be in a state of readiness to meet unexpected changes in demand for the supply of his products from elsewhere. A further commercial risk arises out of the perishability of agricultural products. The possibility of waste during transit or storage and the difficulties of holding back surpluses when supply is greater in relation to demand add to the commerical risks of agriculture. For the essential success of any business undertaking, control of production is one of the chief factors. If production cannot be controlled, it is obvious that supply cannot equate demand. At times more products will be produced than can be sold remuneratively, and at other times enough products are not available even when prices are attractive. Over-production or under-production can be avoided by adjusting supply to demand but natural forces such as drought, floods, weather conditions, destructive pests or sudden animal diseases—all or any or these makes it difficult for the farmer to adjust his output to demand. Even if farmers could anticipate prices and base their production on such prices, weather conditions cannot be accurately forecast, as a result of which the farmer's control over production becomes merely nominal and this intractability of producion makes difficult the adjustment of output to vary in accordance with demand. The inelasticity of supply of farm products is due to the fact that the supply of variouscfactors of production in agriculture is also inelastic. The supply of land in an old country is always limited and even in a new country, virgin land can only be brought under cultivation after a considerable expenditure on clearance and irrigation and other improvements is incurred. Capital sunk in land asumes a more permanent form than in any other industry, and cannot be shifted therefrom. For instance, sums of money spent on bunding or sinking of wells

on are fixed capital expenditure, and the capital investments in land would be a dead loss if production is shifted to some other industry. Thus production will continue even when prices are falling. Again, the supply of agricultural labour is also inelastic, particularly in cases where the farmer works on the land with the help of the members of his family. The amount of labour spent on cultivation hardly shows any response to price changes in the crops produced. Many of the farmers are self-sufficient and this fact further increases the inelasticity of agricultural production because what cannot be sold can be consumed on the farm. Further, it is difficult to put a stop to agricultural production unlike in industry by abandoning the farms themselves, because farming is regarded more as a way of life than abusiness. Futher, it may be noted)that agriculture is a biological industry which cannot be stopped all of a sudden. A farmer cannot stop feeding his bullocks or watering the plants or removing the weeds. It is also true that farmers are by and large individualistic in their outlook and do not readily combine in groups for the purpose of controlling production. No doubt farmers are found to favour the formation of marketing co-operatives, but the object is to market their products remuneratitively. The increase in price that may result may lead to greater production, which may mean lower prices. Production in agriculture can thus be controlled by the individual farmer which becomes difficult even under Government supervision, as was demonstrated in the past in this country during the days of the Grow More Food Campaign.

(h) **Inelasticity of demand for farm Products** :—Most farm products fall into the category of necessaries of life and there is little or no tendency on the part of consumers to increase or decrease their purchases in response to price changes. If the prices of agricultural products used as food are low, consumers do not increase their purchases to any great extent because of such low prices, though any one individual consumer may vary his purchases according to price or any individual agricultural product may equate demand in a varying degree according to price Further, the difficulty of adjusting production to demand is aggravated by the economic lag in production or marketing of agricultural products, which is long. Economic lag means

the length of the time intervening during which costs are incurred before the crop is harve sted and marketed. The risks of fluctuations in price are increased by the time -lag. Farmers as a rule react only to prices at the time of sowing and if the price of a product is high at the time of planting , the acreage under the perticular crop will be increased and if prices are low, the acreage will be reduced . When large output is sold, prices are depressed, and if production is sufficiently decreased, there is a spurt in prices. The ordinary farmer misses the market almost invariably. In the words of Belshaw, "The relevance of the economic lag to the problem of risk arises in the first place from the fact that it delays considerably the response to changes in demand and thereby in-increases the intractability of resources. In the second place, it directly increases uncertainly as to the conditions which will exist when the crop is marketed. For obviously, the longer the period between commencement of production and of marketing, the greater is the difficulty of forecast. The·possibility of misjudgement is considerably increased."

(i) **Difficulty of Grading Farm Products** :—Another characstristic feature of the agricultural industry is the difficulty of grading farm products. Nature seems to abhor dead uniformity while the consumer prefers buying products which are uniform as to form and quality. The products of a single farm or a garden may exibit wide variations. All that the farmer can do is to change the character of the plants by careful selection and breeding. In the industry it is always possible to produce large quantities of articles or commodities which are similar as to size , shape and quality, which is not possible in agriculture. The farmer , therefore sorts and grades them out after raising the products and this -method is done with the help of a machine and it turns out to be rather costly. If grading is, however, more economically done, large quantities of agricultural products will have to be assembled or collected in one big lot, but the difficulty is that the output of many farmers is small. If the bulk of products needed for economical grading are to be obtained, it can be done only through some form of group action on the part of farmers. But this is not always forthcoming.

(j) **Cost of Raising Agricultural Produsts** :-One of the peculiar characteristics of agricultural production is that the total cost does not vary with output. There are in agriculture what are known as fixed costs, in contrast with variable or operational costs. Fixed costs consist of -

(1) Rent of land or building or interest on mortgages on land or building, if they are acquired by raising loans.

(2) Interest on loans, if any, borrowed for purchase of cattle or implements.

(3) Depreciation on buildings, cattle, implements and other equipment.

(4) Government assessment or taxes.

(5) Cost of maintenance of family labour.

Operational costs would comprise current expenses for purchase of seed, manure, fodder, feeding stuffs for cattle, hire of casual labour during agricultural processes and repairs to equipment. The fixed costs are always greater than variable costs, and their importance lies in the fact that fixed costs make adjustments in production more difficult than variable costs. Because of the fixed costs the farmer cannot respond quickly to the changes in-prices of his products. The difference between the two sets of costs assumes importance, especially during the period of falling prices. Although all fixed costs are payable in cash, liabilities in the shape of interest on mortgages, taxes, cost of maintenance of family labour cannot be postponed, but it may be noted that costs like depreciation on building and other agricultural equipment cannot be delayed for long and the farmer is compelled to produce and sell products to earn an income sufficient to meet his obligations payable in cash. Similarly, during a period of boom it is not possible for the farmer to increase his capital investments so as to increase production; all that the farmer can do in a period of rising prices is to increase the use of variable factors and intensify production; but here also his production is subject to the law of diminishing returns.

(k) Costlier Credit for Agriculture. -Because of the various risks to which the agricultural industry is exposed, credit correlated to production in agriculture becomes hazardous and interest rates tend to be high. As has already been explained, the farmer is able to control successfully neither the quality nor the quantity of his productions nor his income. This uncertainty as to yield from land or income therefrom discourages the ordinary credit agencies to lend to the farmer, except at higher rates than those charged to ordinary industrial units. Similarly, credit for purchase of bullocks will have to be made for a period ranging from two to three years , but in the meantime, the cattle may die or may be sold away. Credit for purchase of cattle is, therefore, not easily available, unless the farmer is known to be a man of integrity and is personally known to the lender. These difficulties do not, however , arise in the case of credit obtained on the security of land.

2. Why Credit is needed for Agriculture? "Like industrial units farmers also require investment credit for raising output. Generally farmers have to borrow for meeting the cost of at least a part of their capital equipment, viz., land, building, machinery etc. Capital in agriculture takes the form of (1) land, (2) agricultural implements and livestock, and (3) permanent improvements to land such as bunds or wells for irrigatiion. These may be classified as fixed capital required by the farmer which may be used a number of times without exhausting their utility. The farmer also requires working capital which comprises seeds, manures, fertilizers, feeding stuffs, the stocks of food and clothing and other expenditure needed by the farmer during the process of raising products and marketing. The demand both for fixed and operational expenses means demand for credit. By and large, the majority of farmers are not in a position to buy outright the whole of the capital reqiired to carry on production and a part of it must, therefore, be obtained by borrowing. The processes of production and marketing are long and the need for funds to purchase requisites, food and clothing and to pay wages and so on is not constant. Income from sale of crops is seldom regular." These factors make the demand for credit in agriculture inelastic and pave the way for exploitation of the farmer.

3. Classification of Credit for Agriculture - Farm credit may be considered from three points of view, viz., (1) the purpose for which it is required, (2) the length of the loan period, (3) the type of security against which loans are made.

(1) Purposes of Loan. - The main purposes for which agricultural finance is required by farmers are as follows:-

(a) The purchase of land and improvements thereon.

(b) Redemption of mortgages.

(c) Construction of tals or embankments or digging of wells.

(d) Purchase of bullocks, carts and other implements.

(e) Current expenses sush as the cost of seed, fertilizers, feeding stuffs and cost of food and clothing required by the farmer and the members of his family.

(f) Preparation of crops for the market and their marketing; htey may be in transit or may be awaiting sale.

When considered according to purposes or uses, credit for agriculture is classified as land purchase or ownership or investment credit. It is also classified as development credit of production and marketing credit . Credit on cattle is included under investment credit. The credit obtained for consumption needs of the family may be considered as consumption credit. This classification-partly corresponds to credit based on length of time for which the credit is obtained and should not be considered as rigid or inflexible as one type may serve the purpose of the other. According to the length of the period of the loan, farm credit may be classified as (1) Long-term credit ranging from a period of five to thirty years, (2) intermediate-credit varying for periods ranging from two to five years, and (3) short -term credit required for a few months generally below twelve months, and exceptionally for a period not exceeding fifteen moneths, as in the case of sugarcane etc. Land purchase or investment credit is normally long-term credit. Similarly , credit required for land improvements such as tals, sinking of wells, purchase of machinery, clearance of drainage, fencing may be regarded as long-term credit. Purchase of cattle

may be obtained either on long-term or on intermediate credit terms. Even short -term credit may be utilized for a few of these purposes provided renewals are obtained from time to ime. Production and marketing credit may be designated partly as short-term and partly as intermediate credit. Intermediate credit to agriculture used for the production of crops involves a long economic lag There are separate agencies for providing short -term and long-term credit to agriculture, but there is no specific agency for catering to intermediate credit needs of the farmer. The need for special agency is being realized only recently. The term 'intermediate credit' originated according to Belshaw, in U. S. A. "The federal Farm Loan Act of 1916 established facilities for the provision of long-term credit to agriculture, while other institutions such as the Joint-stock Land Banks and Insurance Companies also met the same need. Credit for shorter periods was provided by country banks and the Federal Reserve System. Between the two was a barren area not adequately covered by credit institutions. The need for such institutions was keenly felt during the depression of 1920-21 and the Agricultural Credit Act of 1923 was passed establishing federal, intermediate credit banks. In many countries the same institutions meet the demand for both intermediate and short-term credit and the term is less commonly used. Nevertheless this class of credit is frequently not well provided for and the distinction between intermediate credit and short-term credit is a useful one."

(3) Nature of security. - According to the nature of security farm credit may be again broadly divided into three main categories, viz., (1) land mortgage credit, (2) personal credit and (3) chattel and collateral credit." (1) Land mortgage credit is secured against land by means of mortgage. It normally corresponds to long-term credit and to land purchase or investment credit. In India land mortgage credit is more often utilized for redemption of old debts or for effecting permanent improvements on land which have the effect of improving the yield from land. In countries like Australia, New Zealand and the U. S. A. where land is settled and developed, long term credit for settlement is more important than a short term or intermediate credit. Mortgage credit is also desig nated as settlement and development credit.

(2) Personal credit is advanced on the secutrity of the farmer's pronote with or without another's guarantee.

(3) Chattel credit is given on the security of the farmer's livestock, crops or warehous receipts, while collateral credit is given on the security of property such as shares, bonds, insurance policies etc. Loans may also be given on collective security as well, e. g., in the case of a land mortgage bank, the debentures issued by it are secured both against the assets of the bank and all the mortgages of the borrowing members on their lands. The loan issued by a primary bank is secured against the mortgage of land of the individual borrower, and the debentures floated are secured on all the mortgages of the borrowing members, and thus the bond-holders enjoy collective security. Similarly in the case of a Raiffeisen type of a co-operative credit society, farmers borrow on the collective security , i. e., they pledge their unlimited liability which they accept. The principle of mutual guarantee implied in unlimited liability is a characteristic feature of all co-operative credit societies and has been the basis of credit system in many countries . The above classifications of credit basesd on security are really inter-related . For instance, the period for which a loan is required is determined by the purpose for which it is to be utilized, as the loan is to be repaid out of its own outturn. Thus a loan for permanent land improvement can be repaid gradually out of the additional income earned from such improvement over a number of years. It has , therefore to be necessarily a long lerm loan. The type of the security demanded by a lender depends upon the length of time for which the loan is needed. The longer the period for repayment of the loan , the more tangible security that is needed. Thus normally long-term credit is advanced only against the security of land or other immoveable property, which yields income, while medium and short-term credits are obtainable either on personal or colla-cteral security. The relative importance of long -term, medium-term and short term credit varies in accordance with several factors suchs as forms of land tenure, type of farming practised. For example on dairy farms in New Zealand , the demand for long term credit is proportionately less in amount per farm than on sheep or cereal farms but bears a higher ratio to interme diate and short-term credit. But in sheep farms or cattle ranches or cereal farms

or mixed farms , the demand for short term and intermediate credit will be much greater, according to Belshaw, both absolutely and in proportion to the demand for long term credit.

4. Requisites of a Good System of Credit - A system of rural credit to be really useful and efficient must fulfil three conditions . Belshaw summarises the main requisites as under :-

(a) The Cost of Credit. An efficient system of credit for agriculture should be in a position to obtain funds at a rate of interest which is not higher than for other purposes, taking into consideration such difference as risk, convenience to the lender and cost of supplying it cannot be eliminated . In short, it should ensure an equalization of credit terms. One of the main problems of rural credit is to bridge the disparity in the rates of interest charged to farming industries and to industrial and commercial enterprises. In undeveloped and underdeveloped countries like India, farmers have to pay a rate of interest much higher than what are waranted by the factors of risk, convenience to the lender and cost of marketing credit to agriculture. If farming industries are to be enabled to obtain funds on equal terms with the industrial and commercial enterprises, firstly a special agency or organization will be needed for the collection and distribution of investable funds, at reasonable rates of interest to farmers. Secondly, appropriate methods must be devised to reduce the risk to lenders to a minimum and to enable them to realize their investment in cash when they urgently need liquid funds. Thirdly all hindrances to the free movement of funds so as to establish independant markets must be removed . In other words, factors leading to the emergence of any monopoly in the capital market must be eliminated. To put it in a nutshell, no lender should be enabled to be a monopolist with power to exploit the borrower.

(b) Convenience to the Farmer.- The organization that is set up should also subserve the principle of convenience to the farmer. This means that fresh loans to be granted should be for such long enough period as to secure their repayment out of their utilization . Secondly the supply of credit , parti cularly short-term credit, should adjust itself to the varying seasonal needs of the agriculturists.

(c) Equity to the Farmer - In the event of the insolvency of the farmer it should also safeguard the equity of the farmer. If the conditions mentioned above are to be fulfilled, specialized institutions for supplying credit to agriculture would be necessary The main characteristics of agricultural organization have an important bearing on the problem of cheapening credit to agriculture The remoteness of farms from financial centres, the variety of farm conditions, the great risks implicit in agricultural operations because of the dependence of agriculture on natural conditions and the consequent uncertain yield and the inability of the farmer to present his case properly, and lack of accurate records of his business--all these make the ordinary credit agencies operating in cities or towns, more particularly the commercial banks, reluctant to extend credit to agriculture. Because of the length of the time required for the maturing of crops, farmers require credit for periods longer than those for which the commercial credit agencies are prepared to lend. These considerations emphasise the importance of having institutions which are in close proximity to the farmers to understand their difficulties and appraise correctly the value of land and other other farm equipment , such as crops, cattle, farm houses, implements etc. and are prepared to lend for sufficiently long periods, so that the loans may fructify in the hands of the farmers. Commercial banks in India constituted as they are at present cannot extend credit to agriculture without locking up their investments dependent as they are mainly on short-term deposits. Even short-term credits to agriculture is required for periods ranging from 6 to 12 months and even sometimes up to 18 months in case of crops like sugarcane, and commercial banks with their short-term deposits and having liquidity preference for their funds cannot be expected to finance agriculture except on the security of crops deposited in godowns which are represented by instruments of credit like the warehouse receipts. Because the nature of investments with a bank and the form of loans mutually govern each other. If a credit institution advances loans for short-periods, it is able to accept deposits for short periods. Conversely, if it accepts deposits for short periods, it is forced to safeguard its own position by limiting the period of time for which it advanvces credit. If ithis is not done, deposits may be withdrawn at a time when a large volume of loans is outstanding. Its assets become frozen

and it may even be forced into liquidation not because its asssets are inadequate to cover its libabilities, but because they cannots be realized at the right time. The disparities in credit terms to agriculture can be remedied to some extent in the absence of specialized institutions if the large commercial banks operate with a network of branches spread over the countryside and the smaller commercial banks function as a part of aclosely integrated system of central banking, as has been attempted in predominpantly agricultural countries like New Zeland . Even if the volume of agricultural business done is proportionately small, regional differences in credit terms can be avoided . Still, however, the need for a special credit machinery for agriculture cannot be avoided as agriculture remains always at a disadavantage when compared to other types of commercial or industrial enterprises. If the cost of credit to the farmer is to be cheapened, the development of a market for agricultural paper is necessary, as such credit instruments facilitate the flow of capital from one region to another, according as circumstances arise. Further, simplification of legal procedure and provision of standardized forms have also a bearing on the reduction of inital cost of issue of loans or the cost of renewal. Lenders are not generally in a position to correctly assess the risks implicit in advance to the farmers nor are they able to appraise correctly the security offered for loans. That is why they charge a higher rate of interest to cover these risks involved. If specialized institutions are organized, they can employ experts who can properly assess the credit and appraise the security correctly. When the commercial and technical risks are thus reduced, the intermediate credit agency like a specialized banking institution would be in a position to create more confidence among the investing public, with the result that it can attract to itself the savings of the community at reasonable rates of interest. With resources thus obtained on reasonable terms, the specialized institution will also be in a postition to lower the cost of credit advanced to the farmer. With the help of the expert staff appointed, the specialized agency can judge accurately not only the integrity of the farmer and his ability to repay, but also safeguard its position by making advances up to a certain percentage of the value of the security offered. Another advantage of a specialized institution lies in the fact

that it is in a position to reduce the risks by spreading the same over a body of lenders or investors of money with it. Really speaking, it is the depositors or the investors of money with an intermediary like a Bank that ultimately lend to the borrowers but through the process of lending through the bank, the risk is transferred from the body of depositors or investors to the shoulers of of the bank which stands guarantee to the depositors with its resources and the collective security offered by its borrowers. Thus, for example, an individual moneylender stands to lose his investments if the debtor to whom he has lent monies fails or turns out to be insolvent. But the creditors of an agency like a land mortgage bank---who are generally debenture-holders--are in a position to realize their investments on the date of maturity even if a few of the borrowers of the bank have failed to honour their obligations on due date. That is how the capacity of of a credit'institution to act as a buffer or to spread risks is one of the important tests of a good system of credit....Primary co-operative societies in villages run on Raiffeisen principles or a land mortgage bank reduces the risks incurred by the creditors by substituting a collective for indicvidual security. Another criterion from which the soundness or otherwise of a specialized institution is judged is the convenience to the lender. Lenders will be in a position to trust the institution with their deposits at lower rates of interest if they are sure to get back the monies immediately on the due dates of maturity, without much difficulty, when they need the funds. Convenience to the lender is best ensured, in the words of Belshaw, without endangering the security of the farmer, and funds are obtained by means of standardized securities having a wide market. The joint stock method of organization being unsuitable because of reasons inherent in agriculture itself, some other method, i. e., co-operative land mortgage bank, is generally formed for providing such securities. This resolves itself into marshalling the security of individual farmers by the establishment of collective security in a standardized form. For example, a co-operative land mortgage bank acheives this by sale of bonds issued for a period long enough to cover the needs of a farmer and secured both against the resources of the institution and whole of the mortgages and the liens on borrowers Lands. Prevention of exploitation of

the farmer by a monopolist moneylender should be one of the objectives of a sound system of rural credit. In the absence of any organized credit agency to market credit to agriculture in villages, the moneylender rules supreme and dictates his own terms to the needy farmer who thus becomes a helpless victim of the moneylender who is the only agency to lend money in villages. This leads to the virtual exploitation of the farmer in all possible ways. An alternative agency which is well organized and working under a co-ordinated system of banking is the only safeguard against the monopoly of the moneylender Another criterion from which the efficiency of a sound system of rural credit is judged is the convenience to ihe farmer. A soun dsystem of rural credit should provide for the three main types of credit required by the farmer, viz., long-term, intermediate-term and short-term. Long-term credit to farmers should be for a period ranging from 20 to 30 years or more according to the purposes for which it is required and should provide for gradual repayment in easy instalments, that is to say, through amortization. In fixing the size of instalments due regard should be had to the expenses of maintenance of the farmer and his family and operational expenses of agriculture. It is difficult for most non-specialized institutions to provide credit on such long-term basis. Short-term and intermediate-term credit should normally cover the period involved in raising and marketing of crops. These short-term and intermediate credit should beboth timely and adequate; otherwise, the farmer is likely to misuse the amount. Lastly, the credit dispensed should be elastic. Rural credit to be efficient and effective must expand during the busy season and the system established should devise a method whereby the crops on their journey to the market or in storage can be used as security through the warehouse receipts for the advances obtained by the farmer. The organized credit system has also to be considered from the point of view of equity to the farmer. If for one reason or an other, the farmer is unable to repay his obligations and his property has to be sold, a proper method may be devised whereunder he gets a fair price for it and the balance, if any remaining after his liabilities and other costs are fully met in the process of liquidation, returned to him. In the next and the subsequent chapters, we propose to deal with the several agencies that provide agricultural credit in India.

CHAPTER IV

Agencies marketing Agricultural Credit in India.

1. Enumeration and part played by different Agencies.-Rural credit in India is provided by the following agencies :—

(a) Moneylenders both professional and non-professional.

(b) Indigenous bankers.

(c) Government.

(d) Commercial Banks.

(e) Loans Offices of Bengal.

(f) Nidhis and Thrift Funds.

(g) Traders and Commission Agents.

(h) Relations of Agriculturists.

(i) Landlords and others.

(j) Co-operative Organizations.

As may be seen from the abocve enumeration of the existing agencies, providing rural finance in India, we have taken into consideration the Adatyas and Dalals, landlords, relations of agriculturists who make advances to the cultivators during the process of production or marketing. The part played by these different agencies in the direct financing of the agriculturist has recently been brought out by the Rural Credit Survey Report and the following table indicates the names of different agencies and the proportion of finance made by each to the agriculturist.

Credit Agency.	Proportion of borrowings from each agency to the total borrowings of cultivators.
	Per cent.
Government.	3.3
Co-operatives.	3.1
Relatives.	14.2
Landlords.	1.5
Agriculturist moneylenders.	24.9
Professional moneylenders.	44.8
Traders and commission agents.	5.5
Commercial banks.	0.9
Others.	1.8
	Total : 100-0

It will be seen from the above table that about 93 per cent. of the total amount borrowed by the cultivators was supplied by the private credit agencies excluding commercial banks. The combined contribution of the Government and Co-operatives was a little more than 6% of the total. As for commercial banks, they played an insignificant part inasmuch as they hardly supplied 1% of the total finance. The private moneylender still dominates rural credit, the professional moneylender with about 45 per cent. and the agriculturist-moneylender with 25% of the total. A striking feature common to both the the professional and the agriculturist-moneylenders is that about 80 per cent. of the debt owed to either class is unsecured. Finance received from relations of agriculturists accounted for only 14 per cent. of the reported borrowings of the cultivatior, the loans being interestl free. About 6% of the total borrowings of the cultivators was from traders and commission agents. It may be noted that several moneylenders combined other activities with moneylending and the proportion of borrowings in some of the more commercialized districts was quite high. But there is only a very thin line of distinction between what the trader may professedly advance loan and what he may virtually advance as instalment of purchase money. It is noteworthy, according to the Survey Report, that in certain districts a very high proportion of the total advances from traders formally classed as 'loans' carried no interest. In

a significant number of districts in which village sales were a marked feature, the cultivators reported themselves indebted to the traders in respect of a large proportion of these sale transactions they had entered into with the latter."

2. Reasons why the Professional Moneylenders dominate Rural Credit :—The Rural Credit Survey Report while analysing the reasons why the moneylender, among creditors, and among moneylenders, the professional moneylender, dominates rural credit, attributes dominance to the ineffectiveness of competitive agencies for the supply of rural finance, effectiveness of the technique employed which virtually amounts to econoimc and social compulsion and the realities of the village setting which the technique employed operates. The survival of the moneylender is also attributable to the elasticity of his operations. So says the Report : "The main fact meanwhile is that the needs exist and must seek such fulfiment as they can in the given conditions It would be wholly incorrect to talk of the moneylender as merely exploiting those needs. He also adapts himself to them. Among other things, it is this adaptation which explains his survival in the village, whereas the legislation which has sought to control him survives, by and large, only on paper. It is necessary that we try and understand if we can, the ways of the moneylender as he pursues his calling in the village. First, thre is little that escapes his eye in the circumstances of his debtors or of those who may one day be his debtors. What co-operatives merlely postulate, he actually possesses, viz., a local knowedge of the character and the repaying capacity of those he has to deal with. Second, he has different kinds and degrees of hold on those to whom he chooses to lend. Least important of all for him is the possibility of having recourse to the law, and almost as unimportant especially nowadays) is the possibility of acquiring his debtors' property. This predisposes him in most cases to dispense with the requirement of land as security--an aspect to which we have already referred. Usually the compulsion which he depends upon is one which he has reason to hope will operate more or less automatically. If need be, of course, he is prepared to exert himslef and set in motion the forces of compulsion. These forces are social or economic or both. They are different

for different debtors but are in each case related to how the debtor is circumstanced in the village. The social compulsion is connected with considerations such as "loss of face" or local prestige, caste disapproval, possible pressure through the caste panchayat, and a variety of other social sanctions, which because they happen to be intangible not on that account any the less powerful There are also a number of ways of economic compulsion. One form of pressure is that which the moneylender can himself exert by threatening to withhold further credit. Another is that which it may be possible to apply through some other creditor, especially the trader from whom the cultivator may have taken an advance. Both these varieties of pressure become one and the same if the moneylender is himself the trader as is so often the case. Since moneylender, trader and landlord--not to mention village headman and village accountant--are not without their code of mutual obligations in the village, it may also happen in some instances that the moneylender approaches the borrower's landlord if he has one. For, to the owner of the land the cultivator is likely to have been beholden already in more ways than one. These do not exhaust the various ways of applying the economic sanctions but they are fairly illustrative. Third, it does not follow that he will invoke the forces of compulsion the moment payment has become due. This is a matter on which, being unfettered by institutional codes, he can be as rigid or as elastic as realism dictates. Often, of course, he has to reckon with the fact that both debtor and he will have to continue to live in the same village. Fourth, having in the light of all this decided on whether and how much he is going to lend and on what terms, he is free to follow as flexible a procedure as he likes in regard to the actual operation of lending, he may or he may not insist on formal document of debt, though he usually does. With due regard to what he wants and having in the meanwhile arrived at his own reading of the situation he generally proceeds to consider whether it is worthwhile to make the document. and conform to truth. If he concludes that it is not, his next step is to decide on the precise extent to which the record shall deviate from the more accidental facts of transactions such as principal, interest, period of repayment and security. Finally, he may, if forced to it, even decide to alter the nature of the transaction itself, and e. g., contrive

that loan is entered as sale if the former is inconvenient. Fifth, perhaps the most important of all--and at the same time illustrative of his adaption to needs--is his ability to hand over the money promptly in order that some expenditure which brooks no delay may be helped to be met at once. There is no need for him to await someone else's sanction and the compulsions mentioned above enable him if he so chooses to dispense with or postpone all or any of the legal formalities. If to the substance of the technique described above we add the fact of the moneylender's virtual monopoly of rural credit, we shall have got together the essentials of the situation; just as he uses certain sanctions against the debtor, there are similar sanctions which can be used against him also. Different villages will provide different answers except of course that nothing internal to the village seems so far to have succeeded in subduing or dislodging any large number of moneylenders. The private moneylender shows no sgins of disappearing. "

3. **Moneylenders Classified ;**—Moneylenders can be classified into two broad categories, viz., professional moneylenders and non-professional moneylenders. The professional moneylenders may further sub-divided into three distinct classes—(1) the village or rural moneylenders, who combine with moneylending other activities such as trading, (2) the urban moneylenders and (3) the itinerant moneylenders like the roving Pathans. The non-professional moneylenders include (1) land-owners who finance their tenants this class is fast disappearing in areas where extensive land reforms are introduced) and also lend monies to other agriculturists. This class of moneylenders is mainly found in Madras and Punjab; (2) other non-professional people such as lawyers doctors, widows who have surplus cash to lend to farmers, if the latter are personally known to them, and if they are satisfied with the security offered; (3) the village bania who makes advances to farmers on the condition that the produce, when ready, should be sold to him at a price which is predetermined. Of all the rural moneylenders the landlord or the agriculturist-moneylender is in a stronger position in the village. Though the methods followed by him are similar to those pursued by his professional counterpart, his sole object in lend-

ing monies is often to obtain possession of land of his borrower by ejecting him. The tenants of the agriculturist-moneylenders have to pay the rent of the land and interest on the loan borrowed sometimes in kind. If the borrower defaults in making payment, his crops are liable to be seized. One feature of the moneylender's finance is that the moneylender is not very particular about the purpose for which the loan is required nor is he anxious to as certain whether the loan is going to be utilized for productive or unproductive purpose : nor does he make any distinction between short-term or long-term loan before the loan is granted, provided he is satisfied about the security. In case of failure of crops, the moneylender is willing to extend the period of repayment of the loan until another harvest. He is not very particular about the recovery of the principal provided he recovers interest. The borrower is freely given a chanee to repay the principal so long as the security continues to be adequate. The methods followed by moneylenders are diverse and depend upon factors relevant to each case. A noteworthy feature as already referred to is the extreme flexibility and simplicity and absence of technical routine which is so characteristic of institutional credit. The personal knowledge which the moneylender brings to bear on his client and the proximity of the lender and the borrower are factors in the situation facilitating speedy grant of loans. Moreover, the agriculturist understands the method followed by the moneylender and appreciates very much the timely grant of loan, which is often absent in a co-operative credit society. The absence of formalities and other factors make borrowing from the moneylender more easy and attractive to the agriculturist, than borrowing from a co-operative society or Government. The rural moneylender supplements his resources sometimes from the urban moneylenders and the indigenous bankers. Moneylenders combine trading with moneylending, sometimes borrow from commercial banks through the process of discounting their hundies.

4. **The Rate of Interest charged by the Moneylender** :—The cost of moneylender's credit, i. e., the rate of interest charged by the moneylender, is generally high, as there are no alternative agencies willing to lend to all and sundry in the village as freely as the moneylenders do. The rate of interest charged continues

to be high, because the assets of the farmer are such as cannot be accurately assessed and the prospects of yield often depend upon vagaries of the monsoon and other climatic factors. No alternative agency is prepared to undertake the risks implicit in agricultural finance. According to the Reports of the Provincial Banking Enquiry Committees, rates of interest charged by the moneylenders varied between 12 and 37½ per cent except in the case of intinerant classes, viz. the Pathans, the Kabulis and the Rohila moneylenders, who charge a rate of interest which might vary from 75 to 360 per cent. Rates of interest on loans granted carry exorbitant rates which go up to as high as 300 per cent. Another reason why the rate of interest charged by the moneylender is high is the fact that the moneylender is not linked to the money market and he oftrn suffers from a shortage of funds himself. In the latter contingency, he himself has to borrow funds from the indigenous bankers who charge a high rate of interest. As the moneylender advances small amounts of money to innumerable small borrowers, it is obvious that the cost of collection of petty amounts loaned out is higher than that of the more organized credit agencies lending larger sums to individual borrowers. In granting loans to the agriculturists, the moneylender undertakes the risks and the higher rate of interest charged is in part a sort of insurance against the risks involved. Sometimes the effective rate of interest charged is much smaller than what is stipulated in a contract. The Central Area Banking Enquiry Committee's Report mentions a case in Delhi where the stipulated rate was 37½ per cent, while the actual rate realized by the moneylender was only 6.9% The recent Rural Credit Survery Report mentions that in regard to the rate of interest neither the moneylender, whether professional or agriculturist, nor his close associates--the landlord and the trader are seen to exercise much restraint on themselves. According to the data collected by the Survey, "the proportion of the total borrowings of cultivators from private credit agencies (other than commercial banks) or such of those borrowings as bear a rate of interest of 25% or more is as high as 70% in Orissa, 49% in Tripura, 40% in West Bengal and Himachal Pradesh, 29% in Uttar Pradesh and 27% in Bihar; nor are annual interest rates of 50% or above infrequent, in certain areas. It follows that money-

lending legislation has had little effect on what the cultivator is actually charged as interest by the moneylender." The Report further adds : "The total number of village moneylenders interviewed for the purposes of the survey was 622 all over India. Of these 174 or about 28 per cent. said that their financial operations made it necessary that they should themselves borrow; further, out of the 174, as many as 78% mentioned other moneylenders, some 6% mentioned indigenous bankers and 4% referred to commercial banks as sources available to them for financing their transactions. Of the 2854 urban moneylenders interviewed all over India, some 966 or about 34% said that they themselves had to borrow in order to finance their transactions. Out of the 966 urban moneylenders, some 320 or 33% referred to commercial banks as their resort to borrowing. Out of the 966 again, 84% urban moneylenders or 9% mentioned indigenous bankers as the available sources, while as many as 673 or 70% said that they could borrow from other moneylenders. The Survey data also generally indicate that the commercial banks as a whole have assumed more importance than any other single agency (including the indigenous bankers) for the financing of the trader in agricultural commodities. Wholesalers and export firms are in some districts the most important agency available to such traders." The Gadgil Committee, while referring to the evasion of the provisions of the Moneylenders Act relating to the rates of interest observes : "Since the main aim of regulations is to lower the high cost of credit, the tendency of legislatures is naturally to fix the rates at very low levels. It is emphasised that the small agriculturist, on account of his very small margin of profit, can afford to pay only a low rate of interest, but the corresponding fact that on account of the higher cost of making small loans and the comparatively greater risk involved, the moneylender has in the course of business necessarily to charge a higher rate of interest, is often forgotten. It is not realized that there is such a thing as an economic rate of interest below which the business does not pay its way. The rate of interest depends on several factors such as the security offered, the size and the period of the loan, the cost of collection and business expenses. How far a high rate of interest is an insurance against risk is illustrated by the analysis of the incomes of the moneylenders in some

selected villages of Ajmer-Merwara, Delhi, North-West Frontier Province made by the Central Area Banking Enquiry Committee. It shows that the actual rate of interest realized by the moneylenders on their invested capital was in many cases only 40 per cent. of the rate stipulated by them in the contract. If the rate of interest is fixed too low without properly allowing for all the factors that go to determine it, the result is that the comparatively honest moneylender is driven out of the business, leaving the borrowers at the mercy of the unscrupulous moneylender who would carry on illegal business and would compensate himself for the risk by adopting illegitimate and exorbitant practices. The main thing to be remembered is that restrictions on the rate of interest in the supposed interests of the borrowers which do not give any consideration to the economics of moneylending far from helping the borrowers only make matters worse for them. The creditor charges not only the rate which he would ordinarily have demanded but through one device or another he also charges something extra to compensate himself for a possible loss. The moneylender does not confine his business to mere money-lending. He combines it with several other functions, the most important and most common being that of a merchant or a commission agent marketing the produce of his client. This places the moneylender in a position of being able to avoid any regulation. For example, if a limit is imposed on the maximum rate which he can charge, on loan, he can nullify its effect by forcing the borrower to sell his produce to him at a lower price. Therefore, any attempt at controlling money-lending to be effective should necessarily be accompanied by some regulation of marketing of agricultural produce not only inside the regulated markets but also outside them. We may refer in this connection to such legislation as the English Horticultural Produce (Sales on Commission) Act, 1926, which requires all commission salesmen to maintain books of accounts open to inspection in a certain manner and to furnish particulars of sales to consignors. The principles underlying such legislation could be generalized, and it might be made compulsory for all agencies engaged in buying the produce from the agriculturist or selling it on his behalf, to maintain proper accounts and to give to the seller vouchers and statements in prescribed forms."

5. Objectionable Features of Moneylender's Finance in India :— The system of credit granted by the moneylender to the farmer is open to serious objections, the chief features of which are briefly mentioned below :—

(1) The malpractices indulged in by the moneylender as succinctly pointed out by the Central Banking Enquiry Committee are (i) demand for regular advance interest, (ii) demand for presents, (iii) taking of thumb impressions on blank pieces of paper with a view to inserting any arbitrary amount at a later date, (iv) general manipulation of accounts to the disadvantage of the debtor, (v) charging of compound interest, (vi) taking of conditional sale-deeds. (vii) The advance made by the moneylender is further hedged by the condition that the borrower should sell his produce to him only, and thus the borrower is denied the freedom to sell his crop as he pleases. (viii) Repayment is forced, according to the Madras Committee on Co-operation at the time of the harvest, and crops are taken in payment at a low price. (ix) The weighment and measurement is often in the hands of the creditor, so that though much grain changes hands, the debt is not reduced as it should be. (2) Another objection that can be raised against moneylender's finance lies in the system itself. In the first place, the moneylender is not accustomed to think whether the loan granted is of benefit to the borrower, nor is he concerned about the purposes for which the loan is granted, provided the security offered is good. As already mentioned, he is also not particular about the period of the loan, nor anxious for repayment of principal, if the interest stipulated is repaid in time. Compound interest is often charged with rests every six months or so. In short, the credit dispensed by the moneylender is not only uncontrolled but also unregulated, as a result of which the unthrifty farmer continues to remain in debt instead of being educated in the productive uses of credit.

(3) A more serious objection that can be raised against the moneylender's finance is that all the risks involved are only spread over two parties, viz., the borrower and the lender, and there is no intermediary between the borrower and the lender to absorb the shocks and spread the risks. "The moneylender,

while dealing with unorganized individuals, is not concerned with lessening risk but keeping up compensation." Since the canon of convenience to the borrower is not fulfilled inasmuch as the loan being for too short a period, its repayment cannot be made out of its own utilization it has to be, issued and renewed frequently, with the result that it adds to the cost of credit. Thus there is no incentive to thrift on the part of the borrower. Moneylender's finance does not satisfy also the canon of convenience to the lender, as he cannot realize his investment as easily as the standardised and marketable securities. It is difficult to find a purchaser for a land which is situated in a remote village. The various objectionable features and the drawbacks of the moneylender's credit leave no incentive to the farmer to improve agriculture. " In an industry which leaves a small margin of profit and which is, therefore, in need of reduction of the cost of production, the practices indulged in by the moneylender have a demoralizing effect on the agriculturist-debtor. There is no inducement for him to make serious attempts to improve his holding or to grow a bigger crop as another person will get the lion's share of the produce." It will be seen from what is stated above that there is a need for a credit agency for agriculture which will not only dispense credit at low rates of interest, but would also keep down borrowings and educate the borrower in the productive uses of credit. In the words of Sir Frederick Nicholson, the substitution of organized credit for that of the moneylender is a necessary development of civilization. The ideal agency which satisfies all the canons of a sound system of rural credit is co-operative credit. But co-operation, in the words of the Rural Credit Survey Report, has failed, but co-operation must be made to succeed. Until co-operation is properly developed to rise equal to the occasion, any attempt at supplanting the moneylender is bound to result in a serious contraction of credit (this has actually happened in most areas where the Moneylenders Act is in operation). Thus the moneylender cannot be dislodged entirely and he would continue to be a necessary evil in the rural economy of India.

6. Role of Commercial Banks in the Financing of Agriculture.—
(1) The Cultivator and Commercial Banks :—Referring to the role of commercial banks in agricultural credit, the Central Banking

Enquiry Committee wrote in 1931 : " We have already remarked that the joint stock banks play little direct part and the Imperial Bank much less in the supply of credit to the agriculturists. Banks, however, do finance agriculture indirectly by financing merchants, who give advances to the small village dealers, and some banks lend direct on the pledge of produce and valuables and on mortgage. The Bombay Committee have reported that the Imperial Bank has recently begun in the Bombay Presidency to finance big landlords on personal security with sureties or on the security of produce or of gold. The Managing Governor of the Bank stated in his evidence that the policy of the Bank since its inauguration has been to encourage advances at reasonable interest against personal security with at least two good names supported, if possible, by the hypothecation of crops and also against the pledge of agricultural produce and gold." The recent All-India Rural Credit-Surevy Report mentions that the amounts advanced by the Imperial Bank for agricultural production constituted a wholly insignificant proportion of its total advances. From the statistics available with the Reserve Bank in the Department of Research and Statistics, it is found that only 2.7% of the total advances of scheduled banks was for agricultural production as on June 30, 1951. The corresponding percentage for all reporting non-scheduled banks was about 5.5% on the same date. If all reporting banks (Imperial Bank, Scheduled and Non-Scheduled Banks) are taken altogether, the figures for quarter ended 30th June 1951 was roughly 3.1 per cent. of the total advances of all reporting commercial banks in India. The data collected by the Rural Credit Survey indicate that the credit obtained from the commercial banks by the cultivator was less than 1% of his total borrowings, and even so, was confined to a few districts. In 44 out of the 74 districts selected for the survey, not a single pie was reported as having been borrowed by cultivators from a commercial bank, (vide page 70 of the All-India Rural Credit Survey Report, Abridged Edition). The reasons underlying this poor record of performance by the commercial banks in the field of agricultural finance are not far to seek. The Rural Banking Enquiry Committee felt that commercial banks are not likely to find worthwhile under present conditions to go beyond taluka headquarters, towns, mandies, or market towns or other

towns of some commercial or industrial importance. The commercial banks raise their resources mainly by way of short-term deposits and their finance is naturally confined to short-term accommodation. This finance is for a much shorter period than that for which the cultivator requires it. They do not maintain close touch with the agriculturist in the village nor do they possess sufficient expert knowledge to appraise the security offered by the cultivators in the form of growing crops or livestock. Statistics disclose that the expansion of commercial banking is mainly restricted to big cities and towns and no agriculturist can derive benefit from it. As a rule, commercial banks finance agriculture only indirectly by making advances to merchants and commission agents and thus facilitate the movement of crops to the market. Advances are generally made against the stocks stored in godowns, which are kept under the bank's lock and key. The produce so stored is insured against fire at the cost of borrower. This is known as marketing finance. Writing about the role of commercial banks in dispensing marketing finance, the Gadgil Committee observed : " While there does not appear to be an extended scope for the ordinary finance of agriculturists' operations by commercial banks in India, the conditions are much more favourable for marketing finance. The volume of finance supplied by commercial banks to agriculturists for the purpose of marketing could considerably be increased by improving the arrangements for the marketing of crops by (1) the grading and standardization of staples and of contracts, (2) proper storage facilities and the creation of properly regulated local as well as forward markets. The most effective means of ensuring the flow of finance from commercial banks to agriculturists would be the establishment of licensed ware-houses and making the ware-house receipt a negotiable instrument. The Gadgil Committee was entirely opposed to the development of agricultural business of commercial banks by giving them a first charge on crops or farming stock. The Committee wrote in this context : " This will, however, have the effect of stopping finance from all other sources and can be justified only if the banks are in a position to assume the role of the sole supplier of agricultural credit. By their very nature, commercial banks are unsuited for this purpose. Even in countries where agriculture is highly commercialized and is exposed to much

less risk than it is in India, commercial banks have not been able to play that role in spite of all possible encouragement. For instance, in England, agricultural charges were created in favour of commercial banks under the Agricultural Credits Act of 1928, and in order to make them effective the fraudulent breach thereof was made a criminal offence punishable with penal servitude, for a period not exceeding 3 years. It was thought that the commercial banks, being placed in a privileged position, would be ready to cater for all the credit needs of agriculture. These expectations have not however, been realized for a number of reasons. One of these was that the farmer did not restrict the use of his borrowings to short-term operations, but locked up much of the money in land and froze it. The banks could not, therefore, transact much business of this kind without a serious danger to their own liquidity. The attitude of the banks against such finance was further hardened by the slump in prices, as the result of which they found that where they had to realize their security, the prices obtained were much less than the values assigned to it at the time of borrowing. In view of these inherent limitations of the commercial banks in the financing of agriculture, we do not recommend the creation of agricultural charges in favour of commercial banks or any negotiable paper on the strength thereof."

(2) **Co-operatives and Commercial Banks :**—It has already been mentioned that owing to their inherent limitations the commercial banks are not suited to the direct financing of agriculture, and that some intermediaries like the co-operative agency are necessary. According to the Rural Credit Survey, in a total working capital of Rs. 36.72 crores of all the State Co-operative Banks in India as on June 30, 1952, loans from commercial banks amounted to Rs. 2.51 crores or less than 7% of the total. Small as it is, the figure is misleadingly large. For, out of the 2.51 crores a major part represented a loan which on State guarantee and in effect as against the Government of Madras, the Madras State Co-operative Bank obtained from the Imperial Bank of India for purposes largely connected with food control, i. e., procurement etc. of foodgrains. Even more negligible is what district co-operative banks and banking

unions manage to get by way of credit from commercial banks the All India average being 1.7%. From the data available with the Reserve Bank of India, it is found that the advances of commercial banks to wholesale trade in agricultural commodities amounted to about 17 per cent. of their total advances on 30th June 1951. A large portion of such credit was in respect of agricultural commodities such as cotton, jute or oil seeds and sugar, more particularly cotton, which are of major significance to the commercial community.

7. **Indigenous Bankers and Rural Credit:**—The Central Banking Enquiry Committee defined an ' Indigenous Banker' as a banker other than the Imperial Bank of India, the Exchange Banks, the Joint-stock Banks and the co-operative agency and includes any individual or private firm receiving deposits and dealing in hundies and lending monies. The practice of indigenous banking is limited to certain castes only in India and the business is hereditary in some of the families belonging to those castes. The Jains, the Marwaris, the Chettiars, the Multanies or the Sindhis are known to be functioning as indigenous bankers from times immemorial and are found in almost all important markets in India. The main features which distinguish the indigenous banker from the moneylender, according to the Punjab Provincial Banking Enquiry Committee, are brought out in the comparative table given below:—

Indigenous Banker	**Moneylender**
1. The indigenous banker receives deposits from the public and deals in Hundies.	1. The moneylender neither accepts deposits from the public nor does any transactions in hundies.
2. The indigenous banker supplements his resources by borrowing from commercial banks through the discount of hundies.	2. The moneylender borrows funds from the indigenous banker himself.

Indigenous Banker	Moneylender
3. The indigenous banker is very particular about the purpose for which the loan is required.	3. The moneylender is quite indifferent as regards the object of the loan and period of repayment, provided security offered is adequate.
4. The indigenous banker usually lends monies to moneylenders, village banias, adatyas, commission agents engaged in the movement of crops and in a few cases he makes finance available to artisans and indusstrialists in towns. In short, the indigenous banker finances trade and industry and his credit to agriculture is indirect.	4. The moneylender often lends money on the personal security of the borrower and finances consumption needs, advances being made for all sorts of unproductive purposes. He makes direct finance to the cultivator.
5. The business of the indigenous banker is more safe and his clients repay the loans more punctually.	5. The business of a moneylender is more risky and he has to take more care and trouble to realize the loans advanced to his clients.
6. The accommodation granted by the indigenous banker is by way of discounting hundies and is in the form of clean credit against pro-notes or against the pledge of agricultural produce.	6. The moneylender lends monies on the security of the pro-note of the borrower and sometimes he lends against mortgages or jewels and sometimes, if it serves his purpose, he takes conditional bills of sale.
7. The rates of interest charged by the indigenous banker are lower and vary from 6 to 12% according to circumstances, and they may vary seasonally also. The rates charged by the indigenous	7. As the business of the moneylender is more risky and the security offered is uncertain, it takes a long time to realize the advances made by the moneylender. The rates of interest charged are in conse-

Indigenous Banker	Moneylender
banker do not compare unfavourably with those charged by joint stock banks. On unsecured loans the rates charged are anything between 18 to 37% depending on the credit-worthiness of the borrower. The rates of interest charged on mortgages vary between 9 and 12%.	quence considerably higher than those charged by his counterpart, the indigenous banker to insure himself against the extra risk. The rates charged by the moneylender normally range between 9 and 18 percent and they go even higher according to the circumstances of the borrower.
8. The indigenous bankers play a vital role in the internal transmission of funds through the issue of hundies against their clients from one area to another.	8. The moneylender does not deal in hundies.

The points common to both the indigenous banker and the moneylender on the business side are the flexibility of their operation and absence of formalities and absence of consequent delays in making finance. Indigenous bankers like the moneylenders are always accessible to their clients; that is why they are popular with their clients. But it may be noted that the indigenous bankers are extremely conservative in their outlook and are not prepared to shed their non-banking business. The failure of indigenous bankers to attract sufficient deposits of late may be regarded as a serious weakness of the system of indigenous banking which has tended to decline recently in rural areas. With antiquated methods of banking followed by a conservative outlook, the indigenous banker has found it difficult to compete with his rivals the joint stock banks, or the co-operative banks. The Central Banking Enquiry Committee recommended that such of the indigenous bankers as were prepared to give up their non-banking business should be considered as eligible to be placed on the approved list of the Reserve Bank of India for the purpose of grant of accommodation through the discount of hundies. Such bankers as would be

on the approved list could secure the same rediscount facilities which the joint-stock banks enjoyed, if they conformed to certain standards prescribed by the Bank. The Central Banking Enquiry Committee also made other recommendations such as the formation of a co-operative bank of indigenous bankers for the purpose of discounting the hundies of its members and rediscounting the same with the Reserve Bank. They further recommended the adoption of bill-broking as an integral part of the indigenous banking business. They finally recommended the amalgamation of the business of local indigenous bankers with the joint-stock banks. The Reserve Bank of India issued a circular sometime ago to scheduled banks and indigenous bankers in order to elicit their opinion on the question of the linking up of the indigenous bankers with the Reserve Bank of India, and also drew a draft scheme based on the replies thus received in connection with the direct linking of the indigenous bankers with it. But the views expressed by different classes of indigenous bankers were so varied as to discourage the bank from taking any further action, recommending legislation to amend the Reserve Bank of India Act whereby the provisions of the Act relating to scheduled banks should also be made applicable to indigenous bankers. More recently a deputation of the Bombay Shroffs Association approached the informal Conference on Rural Finance with a view to reopening the question of linking up of indigenous bankers with the Reserve Bank of India. Some discussions also took place, as a result of which the Conference came to the conclusion that it would not be appropriate on its part to make any recommendations in the matter for the following reasons:—

(1) The extent to which the indigenous bankers served the countryside was not known and the matter required further investigation.

(2) The shroffs supplied credit mainly in the form of goods and it was open to question whether the shroffs provided agricultural finance as such to any considerable extent.

(3) It was doubtful also whether any effective separation of non-banking from banking business was practicable and the question required further investigation.

(4) Facilities for direct discount from the Reserve Bank were not available to non-scheduled banks.

8. **State Assistance in the Financing of Agriculture :**—The State in India has been since long helping the cultivators by grant of loans. It has already been shown in an earlier chapter as to how the performance of the State as a supplier of credit direct to the cultivator has been a record of inadequacies all round, but it may be noted that taqavi has a vital role to play in times of famine and distress. Its historical origin according to the Rural Survey lay in this function. Thus in special spheres the system of taqavi loans can play a useful role if the loans are channelled through the co-operatives and if the State Governments have a well-planned policy of financing land improvement schemes, chalked out by the officers of the Agricultural Department which the agriculturists are prepared to effect under the guidance of an expert agency. In times of distress in famine areas taqavi loans at low rates of interest would be a boon to the agriculturist as by and large, alternative sources of credit get dried up at the time. But the procedure adopted in the grant of these loans would require to be liberalized and loans advanced at the very commencement of the famine. In backward areas which are generally co-operative deserts where the co-operative plant has no chance to grow or take root, short-term taqavi loans are very greatly appreciated by the cultivators. There are of course certain objectionable features of taqavi loans, as in the case of moneylender's finance for agriculture. Before the advent of the co-operative movement in the country, there was some justification for the State in India to undertake the direct supply of finance to agriculture in order to break the monopoly of the moneylender in rural areas, but with the present growth and development of the co-operative movement it is necessary that the supply of agricultural credit should be left to be done through the co-operatives, as they are the only suitable agency for the financing of normal agricultural needs under normal conditions. Further, like moneylender's credit, credit supplied by Government in the form of taqavi is not only not educative but the Government itself cannot bear the entire responsibility of meeting all the finance required, as it has to borrow large amounts in the money market

for the purpose and to maintain an unsuitable machinery both for dispensation and collection of loans.

9. **Chit Funds and Nidhis:**—One of the oldest systems of raising money in South Madras and Malabar Districts, according to Dr. B. V. Narayanaswamy Naidu, is known as the ' Chit Fund '. It is a simple system of raising funds based upon mutual confidence and honest dealings. Under this system a number of men in a village who are mutually acquainted with each other come together and subscribe a small sum each, normally a rupee or a fraction of it, at regular intervals under the guidance of a promoter for a specific period. When collections are made every month, they are handed over to the Chief Promoter. Different methods are adopted to decide as to who should be given the amount so collected. The original system is the prize chit. Lots are drawn and the winning lot gets the pool. The winner subscribes as usual like other members, for the next month, but drops out from the contest. A variant of this system is that in order to equalize the benefit, the winner gets the amount less a deduction for interest and the amount so deducted is then divided among the other contributors or subscribers who have not won the pool. This is known as the ' Discount System '. There is yet a third system which is designated as the ' Auction Chit'. The object of this system is to obviate the difficulties of those who are badly in need of funds but who are not fortunate enough to win the pool. Under this system the pool is put up to a Dutch Auction, and the highest bidder of discount receives the pool, and the amount of discount is divided among the rest of the contributors to the pool as bonus. The person receiving the pool executes a pro-note to the chief promoter or foreman, and drops out of the next auction. In cases of default penal interest is charged. There are, however, no statistics to show to what extent the funds raised are utilized in financing agriculture. In order to meet the needs for purposes other than productive, the Rural Credit Survery Report has recommended the creation of Mutual Help Chit Funds within the organization of the primary society. The scheme suggested is to be worked on the following lines (Vide page 155 of the Abridged Report) :—

(1) The primary society will be the stake-holder of the Chit Fund.

(2) A particular amount, or graded amounts will be prescribed by the society as periodical (e. g., monthly) subscription.

(3) Membership of Chit Fund—as distinguished from membership of the primary credit society will be open to all villagers acceptable to the society : cultivators as well as non-cultivators, producers as well as labourers. Those admitted will be nominal members of the society.

(4) One-third of the periodical subscriptions will be treated as fixed interest-bearing deposits placed with the society which can be withdrawn after a prescribed period. This part of the contribution will not be included in the chit fund and will not figure in disburesements.

(5) Another third will be earmarked towards 'needs fund' the need being one of a specified category such as marriage or death in the family or a costly illness. Even where the 'needs fund' is sufficiently large, the loans from it for marriages, funerals, etc., should be limited to what is reasonable, as distinguised from what in usual practice is extravagant.

(6) The last third of the amount collected by subscriptions would be disbursed by lots.

(7) The scheme should at the start be introduced only in promising areas after details have been thoroughly worked out. It should ordinarily be introduced only in areas where the more efficient and larger-sized primary societies operate. But when introduced, it may be necessary to ban by legislation certain specified types of chit funds in the area, especially those likely to compete with the society's own chit fund.

(A) **Nidhis :**—The Nidhi was originally a type of mutual loan association. Every member of the Nidhi had to contribute a monthly subscription of Re. 1 or a multiple of Re. 1, normally for a period of 84 months. The amounts so collected were utilized in granting loans to members on the basis of their subscription

at 6% interest and the balance of unutilised funds was used for grant of loans and other securities to members and non-members alike. At the end of 84 months, the Fund was closed and each subscribing member got back Rs. 102-8-0. According to Dr. B. V. Narayanswamy Naidu, there were 218 Nidhis in Madras in 1929 with a total paid-up share capital of Rs. 2.45 crores and the deposits held from the public aggregated to Rs. 1.17 crores. The total working capital of all the Nidhis was estimated at Rs. 4 crores at the end of 1929. The Nidhis were registered under the Indian Companies Act and the monthly subscription collected from members was shown as the share capital of the Nidhis. The earlier Nidhis did not accept deposits nor did they lend monies to non-members. In the process of their evolution they have been developing towards the pattern of a joint-stock bank by receiving deposits and advancing loans. The Nidhis resemble, according to Dr. Naidu, three other similar institutions. In the first place, they resemble the chit funds in that they regularly collect the savings of their members and utilize the funds so collected in grant of loans to their members, at each period of subscription. Secondly they are similar to co-operative institutions in that they inculcate compulsory habits of thrift among members by collecting their savings and using the funds for grant of loans to members. Thirdly they retain the features of joint-stock banks in that they accept deposits from non-members and make loans even to outsiders against tangible security. This last feature of the Nidhis has involved them in some difficulties because in a Nidhi the members are allowed to borrow against the security of their own subscriptions which are regarded as shares and contributors stop subscribing after certain period of time and withdraw their membership. This factor obviously reduces the security to the depositors. Moreover these features of the Nidhis go contrary to the express provisions of the Indian Companies Act under which at least 5% of the nominal share amount be paid on application. But the Nidhis insist only on 1 per cent initially. Secondly, loans against the security of its own shares are prohibited, whereas a Nidhi grants loans to members on the security of their shares—monthly subscription. Again, refund of shares is prohibited without the previous permission of a court of law. In a case that went up before the Madras High Court, the Court held that even those who had finished their

subscriptions and got back their money were still liable for the debts of the Nidhis, because of the permission given for refund of subscription without the sanction of a Court of Law. In order to remove these defects and put the Nidhis on par with other institutions of a similar nature, the Central Banking Enquiry Committee recommended that :—

(1) The Nidhis and Chit Funds should be controlled by a Special Act of the Madras Legislature, called the "Nidhis and Chit Funds Act".

(2) The Nidhis that would get registered under the above Act should be permitted to retain the characteristic features of the Nidhis such as collection of subscriptions and its treatment as share capital, advances against the security of share capital and the refund of share capital at the end of a prescribed period. Such Nidhis should not, however, be allowed to accept deposits from outsiders.

(3) The Nidhis that may be unwilling to be governed by the new Act but accept deposits from outsiders should be fully made to conform to the provisions of the Indian Companies Act, prohibiting the withdrawal of share capital or issue of loans on its security. It is not known to what extent the funds of the Nidhis were utilized in the financing of agriculture.

10. **Loan Offices of Bengal.** The Loan Offices of Bengal are somewhere between indigenous bankers and commercial banks. They are registered under the Indian Companies Act and are reported to be playing an important part in the rural economic life of Bengal. They depend upon deposits for resources, their paid-up capital and reserves being very poor. Ordinarily, the interest paid on deposits accepted by them varies between 4 and 8 per cent depending on the period for which the deposits are accepted. Owing to their competition with co-operative societies and the mushroom growth of Loan Offices in the Province, frantic efforts are made to obtain deposits and the interest offered sometimes goes as high as 15 per cent. These Loan Offices generally make advances to the Zamindars and their tenant-cultivators against mortgages of land or on pledge of jewels and sometimes on personal security also. The oldest loan offices charge interest on their lendings at a rate

varying from 12 to 18 per cent, while the new offices are reported to be charging interest rates varying between 12 and 15% on secured loans and anything up to 102% on unsecured ones. Recent debt legislation in the Province has considerably undermined their position and their assets have got frozen. The Central Banking Enquiry Committee recommended that these loan offices should be controlled by a special Act of the Bengal Legislature called the Bengal Loan Offices Act. It was further suggested that those offices that conduct purely joint-stock business should be classed as commercial banks. There was also the further recommendation that they should be linked up with joint-stock land mortgage banks. These recommendations do not appear to have been implemented so far.

11. The recent Rural Credit Survey Report has assigned no definite place to the moneylender, the indigenous banker and the commercial banks in the integrated system of credit and marketing suggested by it, as in the opinion of the Survey Committee, these agencies other than the State Bank of India will in their individual degrees supplement the scehme, though not finding a definite place in the scheme itself. The Survey Committee further adds that commercial banks in particular will be enabled through the net work of godowns and warehouses to make credit available for agriculture on a much larger scale than hitherto. The Committee further explains that this is due to the fact that the whole object of the scheme is to develop and strengthen a State-partnered Co-operative Banking structure so as to provide an effective institutional alternative and, therefore, a rival to the moneylender and thereby direct his energies and resources to activities more useful from the point of view of the cultivator.

12. **The Co-operative Agency.** The record of the co-operative agency in the sphere of agricultural credit, its performance and failure to come up to expectations and the reasons for its failure and the conditions that should be created to make it succeed are all treated at length in the All India Rural Credit Survey Report which will be summarised for the benefit of the reader in the next chapter.

CHAPTER V

*The Co-operative Agency—Assessment of its Past Record and Possible Lines of Future Development.

In previous chapters we have made mention of the efforts directed in India in the last quarter of the nineteenth century to tackle the problem of rural credit and also assess the performance of different agencies as suppliers of rural finance. We have also shown how towards the close of that century it was realized that a permanent solution of the problem lay in the spread of the co-operative movement which would not only supply agricultural credit on reasonable terms but would also ensure its proper use. It now remains to be seen in this chapter to what extent the co-operative agency as a supplier of rural credit has failed to come up to expectations and to analyse the reasons therefor and to formulate solution for its success. In the words of the Rural Credit Survery Report, " The record of the co-operative agency over the years is strewn with bewildering contradictions; high individual endeavour and general lack of leadership; official sponsorship including official regulation and administration as deliberate and consistent policy of the Central Government and State Governments, but sponsorship which in some States has been real, enthusiastic and in an administrative sense, efficient, while in many other States it has remained normally inefficient and almost as nominal as the existence of the movement itself, in those areas; Government at times seemingly all out to help mostly offering to multiply the number of societies and administer them further rather than by proposing to supervise their affairs, or least of all, finance them further; and Government at other times displaying considerable caution administratively and considerable hesitancy financially; peaks of popular sentiments and enthusiasm for the co-operative idea and periods of wide-spread lack of public confidence in the co-operative move-

* This Chapter is a faithful Summary of matter contained in the Abridged Edition of the General Report of the Committee of Direction of the All-India Rural Credit Survey.

ment; significant sucess in sporadic cases and much failure in the generality of instances; and finally as the one feature common to most regions of the country, the acquisition of five decades of experience from which may be learnt decisive lessons for the future if only one is prepared to delve deep for them and extract from them both failure and success".

2. **The Present Position :**

(a) **State Co-operative Banks:**—The position surveyed by the Rural Credit Survey Committee is for the co-operative year 1951-52, which happened to be also the year of survey. There were at the end of 1951-52, 16 State Co-operative Banks. This number rose to 22 by 1954. Substantial State participation in share capital is a feature of all the new banks set up as also of some of the older ones such as Bombay, and the reconstituted ones such as West Bengal, Hyderabad and Mysore. State Co-operative Banks now exist in all Part ' A ' States, in all Part ' B ' States (excluding Jammu and Kashmir) and in five out of the ten Part ' C ' States. The loan operations of some of the State Co-operative Banks, according to the Report of the Survey Committee, reveal certain defects. For instance, some of them finance traders, merchants and other individuals who are not members of primary societies—to the relative neglect of co-operative finance. The percentage of finance obtained by individual members was as high as 74 in Madhya Pradesh and 30 in Hyderabad. Some Banks have also been reported to have made long-term finance out of short-term funds. The combination of trading with banking in the Credit Agricole Scheme of the Bihar State Co-operative Bank has in the result given a set-back. The percentage of overdues to loans outstanding from banks and societies was reported to be as high as 82 in West Bengal, 43 in Bihar, 21 in Hyderabad and nearly 20 in Madhya Pradesh, Mysore and the Punjab. In respect of its dealings with individuals 50% of the loans of the Apex bank in Hyderabad were overdue. In the opinion of the Survey Committe, therefore, barring two or three States, State Co-operative Banks have yet to become effective units of a co-ordinated structure of co-operative credit.

(b) **Central Co-operative Banks and Banking Unions**:—In 1951-52 there were 509 Central Co-operative Banks and Banking Unions with a membership of 1,18406 individuals and 1,12,912 societies and banks. Their number went down to 499 with a membership of 1.31 lakh individuals and 1.18 lakh societies by 1954. The reduction in the number of Central Banks and the Banking Unions is due to the policy of rationalisation of the co-operative financing system carried out on the lines indicated by the Standing Advisory Committee of the Reserve Bank of India on Agricultural Credit. According to this policy, the number of central banks is to be reduced to the level of 1 per each district as far as possible, so that they may become strong economic units. The capital structure of central banks, in the opinion of the Survey Committee, is very weak, their owned resources meagre, and dependence upon Apex Banks necessarily large. In many States, there is an excessive number of central banks; the average number of affiliated societies to each central bank is often too small to admit of adequate business. The staff of Central Banks are generally ill-equipped and inadequate for the duties they have to perform. According to the Survey Committee, the loan operations of central banks are characterized by several unsatisfactory features. The business done with individual members is a very large proportion of the total advances made by the banks. For example, the percentage was 39 in Madhya Pradesh, 24 in Hyderabad, above 50 in Madhya Bharat and 13 in Bombay. Some of the Central Banks undertook trading activities during the War and post-war periods and burnt their fingers as a result of their commercial ventures. This has reference to Central Banks in Bihar, Orissa, Punjab and West Bengal. The percentage of overdues from societies was very high in many States. Similarly, there was an appreciable amount of bad and doubtful debts in some of the States.

(c) **Primary Agricultural Credit Societies** :—At the end of 1951-52, there were 1,07,925 primary agricultural credit societies with a membership of 47.76 lakhs. As a rule, membership per society is small, the average membership being 44. The average share capital per society was only Rs. 827/-. It was highest in Bombay State at Rs. 2,866/- per society. Punjab came next with

Rs. 1278, while Madras was third with Rs. 1156/-. The average amount of deposits per society was as low as Rs. 408 and the average working capital per society was Rs. 4,190/-. For their finance the majority of societies depend to a very great extent upon external sources. This position improved somewhat later by the end of the year 1954. The number of societies rose to 1,26,954 with a membership of 58.49 lakhs. The average membership stood at 46. The average owned funds per each society amounted to Rs. 1700/-, Bombay continuing to maintain its premier position with Rs. 6,452 per each society. The average working capital per society in Bombay was the highest at Rs. 14,600/-. Coorg came next with Rs. 10,886/-, while Andhra stood third with Rs. 9150/-. The target of bringing 30% of the rural population and 50% of the villages was reached in Bombay, while the target in respect of population reached was 21 in Madras and the percentage of villages touched was a little less than 50. According to the Report of the Survey Committee, the loan operations at the end of 1951-52 were at a very poor level. There was no specific provision for medium-term finance, e. g., to purchase a bullock or to purchase a pump. Moreover, few societies conform to those principles of co-operative finance which require that—

(1) Loans should be for productive purpose and repayment obtained from their utilization;

(2) consequently, repayment should be from general savings or out of annual earnings; and

(3) as a future consequence, repayment should be so adjusted as to be convenient from the point of view of incomings.

The picture that emerges, in the opinion of the Committee, is strikingly a different one of an arrangement whereby the borrower is in effect allowed a limited permanent advance which is based on the security of land and which he usually carries over from year to year. There is little or no relation between credit and between medium-term and short-term loans. Sometimes when administration happens to be insistent on compliance with obliga-

tions incurred it is not unknown for devices to be adopted, such as plausible book adjustments, or temporary repayment, followed by immediate reborrowing in order to make it appear that loans are being repaid annually. These and other considerations, in the opinion of the Survey Committee, must be kept in mind for a realistic approach of the overdues position of the primary co-operative societies. The All-India percentage of overdues to outstandings was 25 in 1951-52 as against 34 in 1954.

(d) **Multi-Purpose Societies.**—A noteworthy trend, according to the Survey Committee, is the enlargement in functions of the primary agricultural credit society. In recent years, as a result of a deliberate policy on the part of some State Governments in large part connected with the need for an agency for the War-time distribution of controlled goods including food and cloth, there has been a large increase in the number of multi-purpose societies. The term 'multi-purpose' covers all gradations of the enlargement of purpose from the simplest stage just when one more function is added, to that degree of co-operative development which all or almost all the important aspects of the socio-economic life of the individual member are taken within its ambit by multi-purpose society. Enlargement has, however, tended to remain generally at or near the simplest stage—a fact which is to be borne in mind in interpreting the statistical expansion of the multi-purpose society, as could be seen from the following comparative table :—

(Figures in lakhs except membership)

Year.	Number of Societies.	Membership	Working Capital	Purchase of Goods	Sale of Goods
1951-52	39,939	21.43	Rs.13,33,71	Rs. 22,60.96	27,85.96
1952-53	48,659	24.80	16,91.18	,, 8,16.60	10,87.97

These statistics indicate that there has been a great shrinkage in the volume of goods purchased and sold by multi-purpose societies. Purchases went down to 8.17 crores, while sales declined to Rs. 10.88 crores. This is attributable to the fact that Government ceased to supply multi-purpose societies the controlled articles. Their business in lines other than credit also declined.

(e) **Classification of Societies based on particular form of liability.**—In 1951-52 out of a total of 1,07,925 agricultural credit societies, 30,904 societies had limited liability, while the remaining had unlimited liability. This means that unlimited liability societies predominated. Till recently, according to the Survey Committee, unlimited liability is the orthodox Raiffeisen principle which has been the guiding principle of Co-operative Departments in India in their official mission of organizing co-operative credit. The theory was that the collective and unlimited liability would provide a suitable basis on which loans could be obtained by those who had little or no tangible security to offer and also induce a feeling of collective responsibility among members and as a corollary initiate a live process of careful business management, continuous vigilance and mutual supervision. In practice, however, little of this has materialized.

3. **Long-term Agricultural Credit :**

Central and Primary Land Mortgage Banks.—At the end of 1951-52 six central land mortgage banks were functioning according to the Report of the Survey Committee in six States, viz., Bombay, Madras, Mysore, Orissa, Travancore-Cochin, and Saurashtra. A central land mortgage bank was set up in Hyderabad in the early part of 1953. The Survey Committee mentions that land mortgage banking has made little progress in India. Whatever development there has been is largely confined to Madras (including Andhra). Out of a total of 289 primary land mortgage banks, in 1951-52, as many as 113 were in Madras. Out of a total of Rs. 250.65 lakhs advanced as loans by the Central Land Mortgage Banks, Rs. 82.84 lakhs or 33% were accounted for by the Madras Co-operative Central Land Mortgage Bank. The observations of the Survey Committee regarding the working of the primary land mortgage banks are :—

" Loans given by land mortgage banks are predominantly for discharge of prior debts and redemption of mortgages, and not for purposes connected with land improvement and development. Land mortgage banks have little or no specialized staff for assessing the technical soundness of schemes and inadequate supervising

staff for verifying that schemes are in fact being executed. State Governments possess such a machinery, but proper co-ordination between State Governments and land mortgage banks in this particular is almost always lacking. Again, borrowers from land mortgage banks are required to repay loans in equated annual instalments over a series of years, usually 15 or 20. Different periods are not prescribed for different types of loans. This is an outcome of the long-standing practice under which the loans given are predominantly for clearance of debt. One of the criticisms levelled against land mortage credit is the delay involved in getting it. Land mortgage banks as a rule find it difficult to raise adequate long-term funds for their operations. Even though guaranteed by the State Governments, their debentures have only a limited market. Finally, central land mortagage banks and state co-operative banks not only remain legally, financially and administratively distinct, but make little or no effort to co-ordinate their activities."

Summing up the position, in the opinion of the Survey Committee the place occupied by co-operative credit in the rural finance of the country is very insignificant. Organizationally and financially, there has been at the apex level, considerable expansion in the recent past. Even so, the Committee observes, that the central banks still remain weak and largely unco-ordinated, but the weakest link of all in a chain which is weak at almost all points is the primary co-operative society. It satisfies neither of the requisites of good co-operation or sound credit. Its failure to promote thrift and savings is followed at not too great a distance by its failure to provide in the village a system of credit which is at once adequate, prompt and productive. These remarks, the Survey Committee observes, which are primarily with reference to short-term credit also apply to medium-term and long-term agricultural credit. The former is still a big lacuna everywhere. The latter apart from Madras and Andhra which contain the beginnings of development is practically undeveloped in India. In the opinion of the Survey Committee, the land mortgage banking system of India can be said to be at its best one which raises inadequate funds in a manner ill-related to demand and usually lends them in a manner unco-ordinated with development; it acts as if prior debts and not

production had prior ciaim on its attention; reaches mainly the large cultivator and reaches him late.

II. Analysis of Reasons for the Failure of Co-operative Credit. The Rural Credit Survey observes that the development of the co-operative movement in India has been inadequate in three important respects:-

(1) There are still many co-operative deserts in India.

(2) Even in areas where it has extended, large sections of the rural population still remain outside its fold.

(3) Even among those who are members the large bulk of their requirements is met from outside sources.

From the magnitude of this three-fold inadequaccy, the Committee has come to the conclusion that co-operative credit in India has failed, but at the same time it has affirmed its faith that eventually at primary level or even at levels higher than the base, there is no alternative more suitable than co-operative form of credit organization. The committee has attributed the poor record of co-operative credit to two broad categories of reasons (1) non-economic causes or reputed causes, and (2) socio-economic: causes or deeper causes. Among the former may be mentioned those that are classified structural or functional in so far as they relate to the organization and working of credit societies and banks and in addition the low level of education and lack of trained personnel are also mentioned. The degree of intervention by the State in the policies and working of the movement is also said to be contributing to the poor record. As regards the structure of the co-operative society, two important aspects are : (1) the size of the society and (2) the nature of the liability. In its bearing on functions, one issue boils down to the consideration of the relative merit of single purpose and multi-purpose societies and another issue concerns the degree of co-ordination between the central banks and their primary societies. Though the size of the society is important, in the opinion of the Survey Committee, it cannot be by itself a crucial factor in expla-

The moneylender has also connections with other money-lenders or indigenous bankers in the urban areas to supplement his cash, if and when needed. As against this opposition, the co-operative society can look up to Government for little else than administration and advice; for financial resources, it has to resort to central co-operative banks, which as a federation of societies, reflect the financial weakness and powerlessness of the societies themselves. These observations apply also to the State Co-operative Banks, barring a few exceptions. The Reserve Bank of India at the top provides finance to both the channels—commercial and co-operative. Barring recent changes in its policy, the Reserve Bank's accommodation is based on the financial strength of the institutions seeking credit and it is normally the commercial channels which feed the trader and the moneylender at several points that receive the larger volume of credit; whereas the co-operative channel gets by and large what its weaker financial structure warrants; the co-operatives face opposition at different levels, base, middle and apex from a private set-up of trade and finance which is not only better organized in regard to its technical services but is also much more adequately and powerfully financed from above. In the opinion of the Committee, the co-existence of three important facts , viz., (1) the organic connection between credit marketing and processing, (2) the powerful urban derived competition arrayed against co-operatives in each of these spheres and (3) the weak rural based structure, provide an important explanation why co-operative credit has, by and large, failed in this country. Not only co-operative credit and marketing, the Committee writes, but also co-operative processing, co-operative organization of cottage industries and several other forms of co-operative economic activity have to face the same unequal competition not only from private trade and finance but also from organized private industry including bigger manufacturing concerns.

(b) Internal Weaknesses — It is not the fact of this opposition alone, according to the Report of the Survey Committee that explains the poor growth of co-operative business, but within co-operative sphere itself are elements—methods and practices and attitudes of mind of individuals—which have hampered and vitiated the credit movement from within. One of the

most striking of these is that co-operative credit at a very early stage gravitated to ownership of landed security from character and repaying capacity of the borrower as judged by local knowledge and kept under review by local vigilance. This bias towards ownership as the criterion of creditworthiness persisted despite exhortation to the contrary. This substanital departure from co-operative principle is explained by the fact that the rural societies as well as central and apex banks follow the line of least resistance and the Panchayatdars and Secretaries of the primary societies no less than those higher up in the structure, such as Directors, Managers and Supervisors of Central Banks look out for the most part of the least troublesome form of security as a basis of creditworthiness, as it does not involve a great deal of effort, supervision and organization. Character and repaying capacity having been banished for this reason, the altenatives are a saleable right in land or the annual produce from the land. The landless tenant or a protected tenant cannot offer land as security because in one case he does not own any and in the other it is an inalienable right. The only alternative is to offer produce from land as security, but the cultivator does not offer it to the society because it has already been offered to and accepted by somebody else —the miller, the trader or the moneylender—long before the harvest. The main reason is the basic need more important than just credit- viz., the need for effective access to urban markets which generally only the private trader provides to the cultivator. The co-operative society does not satisfy either of these needs except to a small degree and except to a small number of cultivators. So, while the landless tenant as also the medium or small producer has only the unharvested crop to offer as security, the co-operative looks askance at this security and has little or nothing to offer in return. The private trader, because of his financial resources, and the private moneylender-cum-trader, because of both resources and local knowledge at his back, are both in a position to give credit urgently required by the cultivator at the time he needs it, and also provide the marketing arrangements (including processing and storage), which facilitate the final disposal of the produce. It is to them, therefore, that the cultivator sells his crop or pledges it in advance. With more resources and the willingness to take more trouble, co-operatives should no doubt be able to provide crop loans based

on acreage and the nature of crops grown, as has been attempted in Bombay. A more radical improvement in the position, according to the Survey Report, would however, be possible, if co-operative marketing were so efficiently organized as to enable it in conjuction with the credit society to offer both credit and technical services on an adequate scale, the former in advance of the harvest as the trader, the processor and the moneylender do. Co-operation as at present organized is unable to muster in adequate degree either type of resource, financial or technical. Unless it is enabled to do so, it will tend to look away from produce as security. As already mentioned, within the co-operative fold itself there are ingrained attitudes, habits and want of active sympathy towards the interests of small and medium cultivators, and a possible bias towards urban interests, particularly the interests of the trader class in towns and cities which have hampered the growth of co-operative credit and co-operative economic business. In central banks and state Co-operative Banks or Central Land Mortgage Banks, in many parts of India, the same influences are at work and there is a very considerable amount of bias, conscious or unconscious in genuine co-operative leadership, or directors of these banks towards úrban interests, such as private trade or propertied classes. In some of the States the Boards of State Co-operative Banks include heterogenous urban interests not particularly attuned by training or temperament to the needs of rural areas. In some of them there is also conflict between representatives of central banks on the one hand and those connected with the management of the Apex Banks, such as official and non-official nominees of the State Governments. In this conflict of interests progress in credit policies for the benefit of the cultivator and for the promotion of production has no chance of being pursued—a characteristic feature of some of the less developed co-operative banks. If this happens in co-operative banks, it is not surprising that more urban-minded and profit-motivated commercial banks, insurance companies etc., have little or no use for the agriculturist and agricultural finance. In the sum-total of the attitude and the environment psychological and socio-logical, the Survey Committee adds, in which the institutions, co-operative or commercial, the central bank of the country operate, consists the climate of institutional credit. But this climate

has been preponderantly urban in Indian conditions, and it is not yet congenial to rural interest and fulfilment of rural needs. It is in such environment that the rural producer is expected generally by co-operative theory and Government policy to combine with other rural producers and form a co-operative society at the village level without substantial assistance from the State but with a great deal of guidance and advice from it. When the society is formed, it is left to face the powerful competition of private trade and private organization of industry, deriving strength and support from commercial banking, finance or export or wholesale trade in the urban areas. The rural producer is also expected in this context to organize himself for marketing and processing of his produce. Added to all this, in the village itself there is the cleavage of interests with the bigger landlord, the village money-lender, the village trader on one side and the medium and small cultivator, on the other. Village leadership also vests in the former and it also operates for the benefit of powerful urban economic interests and it is partly in favour of the social institutions of caste. This biased village leadership makes itself felt in every institution in the village including of course the village co-operative society itself. In this combination of circumstances, outside and inside the village lies the basic reason , in the opinion of the Survey Committee, for the failure of co-operative efforts at better business.

(c) Better Living—Not successful in co-operative action with better farming and better business and not fully realizing that the want of success is more due to forces beyond co-operation, than weakness within it, the Committee adds that co-operative thought and co-operative prescription have tended to seek refuge in the hypothesis that if only the functions and activities of the society are directed to all aspects of life, instead of only to farming and business, the movement will have much better chances of success. Generally speaking, better living can come only as the accompaniment or sequel of better farming and better business and the two will be successful only if conditions requisite for their success are brought about or created.

III. Fundamental Causes Explained—The Survey Committee next goes on to investigate how the combination of circum-

stances outside and inside the village has arisen, and how the disparity between the forces of co-operation on the one hand, and the opposing forces of private credit and private trade on the other have widened in Indian conditions and vitiated the internal cohesion of co-operative bodies themselves. The concentration of private urban-minded financial power in urban areas may be regarded as the heritage of colonial economy in India which drew to itself for export abroad the raw materials and the cash crops of the rural area which meant also the advent of cash or monetized economy to the countryside as distinguished from barter. Money and use of money assume much larger significance even in subsistence areas where barter was prevalent before. The powerful interests of export succeeded in imposing cash economy in their dealings with the rural areas. In the cities and towns also grew up bodies which were ancillary to the main institutions of the export trade and finance. These subsidiary elements consisted of banks, firms, trading houses and the individuals—agents, financiers, representing indigenous interest—found it profitable to work for or in conjunction with the powerful foreign institutions into which they found entry or which they even replaced later. Lower down in the rural area was the village moneylender and the village trader, often the same individual, as well as the small town money-lender and the small town trader or commission agent, again often the same individual, who become the allies of the new economic system which rapidly replaced the old. In areas of self-sufficiency forces of commercialization worked for larger production of cash crops and exchange, as the commercial crops were required for export to the big manufacturing countries, and at a later stage for feeding local industries which had grown up in the country itself. Though large tracts remain as food crop areas, they too were affected by the disruption of the old self-sufficiency. In these areas the banking institutions of the commercialized economy had little interest and the moneylender became more important than elsewhere. In its individual aspect the rural self-sufficiency had been adversely affected much earlier and the products of cottage industries had to compete with those of organized industries, foreign and indigenous. To minimise the socio-economic effects of the new and the inevitable forces on the millions of people, the State should have come forward, but this implied recognition of

the enlarged concept of the State in socio-economic matters, which was not possible until after political power passed to the people. Even so, it required the conditions created by the last World War to induce recognition of the political, social and economic necessity of State intervention and State control and State planning for the benefit of people and areas less favourably situated than the rest. Meanwhile, according to the Survey Report a mechanism of trade and finance continued to operate against the interests of rural population and rural producer in particular. Under this mechanism the location of both power and finance continues to be largely urban and the institutions tend inevitably to be urban-minded. The urban-mindedness usually extends also to the more significant institutions of the State and to the Headquarters and sub-headquarters of the administration of different Governments. To these seats of power and sources of finance is established a chain of contact influence and financial inter-relation. At the end of the chain—the village—are the village leaders such as the Panchayatdar and the Patil to occupy seats of local power and the village financiers, such as moneylender and trader who are local sources of finance. Sometimes the village lender, the village leader and the village trader are one and the same person. Even where they are different persons, a broad affinity governs their attitude towards the rest. Leadership in the village is based either on ownership or property or on the advantage of education or on the hereditary position held in the preponderant local caste, or on a combination of all or some of these factors and finally on political influence. But rarely is village leadership based on merit or culture or on capacity to be of service to the village. Such a leadership is a danger to the co-operative society because while the State has a vested interest in the success of co-operation, private banking and private trade, particularly at the village level, have a vested interest in the failure of co-operative credit. When the local society gets into the hands of the landlord-cum-moneylender, he becomes the society, the depositor and borrower, the Brahma, Vishnu and Shiva, of the Hindu philosophy. Credit for production and finance for marketing at the village level tend in the circumstances to be in the same hands or at least in the hands of those who see with the same eyes and work for the same ends in order to supply urban demand which is supreme over

both production and supply. Further, the subordinate officers of Government—Revenue and other—often stay with the village leaders and are dependent on them for their ordinary amenities when they visit and camp in the village for a few days. Thus a process of association is initiated with those who wield power and influence in the village and who are used as local instruments of an administration which resides in towns and cities and which is generally inaccessible to an ordinary villager. This close conformity of association and interests between the subordinate officers of Government and more powerful elements in the village is of great significance in explaining the failure of implementation of the policy and directions emanating from the higher levels of administration. If these directives affect the interests of the leaders in the village an illusion of compliance is woven around the reality of non-compliance by the subordinate official. In this process it is the weaker and the disadvantaged elements in the village that suffer the most; among the combination of factors that operate against the interests of the bulk of the people residing in the village is the rigidity of the caste feeling in conjunction with the power derived from money, land and leadership and affiliation with the superior forces of urban economy. The Survey Committee concludes that the result is that the landlord who also may be moneylender, the moneylender who may also be trader and the educated person who also may be subordinate official—all these through their connection with the urban world of finance and power—wield an influence in the village which at many points is diverted from the good of the village to the benefit of the caste or even of a close circle of relations. In considering the record of the Co-operative Credit Movement in the Indian village, the Survey Committee writes that in India as distinguished from other countries there has been the unique combination of the following features:—

(1) A socio-economic structure largely based on caste within the village itself;

(2) The linking up of the upper parts of that structure to cash economy, and an administration centralized in the urban sector;

and (3) the fact that the linking took place as the outcome of the three processes which historically happened to operate together in India, viz., colonial rule and administration, commercialization of agriculture and urbanization of industry.

It is within such a socio-economic structure which presents a great disparity within the village itself and an equally grave disparity between the village and the town and the city that the co-operative effort to develop credit has hitherto taken place in India. In this set-up the task was stupendous for any non-official agency. Attempts have of course been made here and there to build up a body of competent workers from the village upwards but without significant success. For Government also till recently, constituted as it was, the task was impossible, and the time itself was not ripe. The context has now changed and the time is clearly propitious. The failure of co-operative credit so far, in the opinion of the Survey Committee, is explained by the fact that no attempt would succeed at combining the very weak in competition with the very strong and it is pretty impossible to expect the very weak to create conditions themselves for their emancipation from the opposing vested interests imposed on them historically and pave the way for their social and economic development. The problem, according to the Survey Committee, is not so much one of reorganization of credit as of the creation of conditions in which it can operate effectively and for the benefit of the weaker sections of the population. The prevailing conditions cannot be transformed by the very persons who are oppressed and rendered weak by the opposing forces. The forces of transformation would have to be at least as powerful as those which are sought to be counteracted. Such forces can be generated not by co-operation alone but by co-operation in conjunction with the State.

V. **Formulation of Solution—Development of Co-operative Credit:**--The first objective of policy, writes the Survey Committee, should consist in undertaking the two-fold task of remedying the internal weakness and rectifying the external maladjustment of the rural credit structure. The problem of rural credit is therefore, nothing short of the reorganization of the socio-economic structure of the village itself. In short, paradoxical as it may sound

but it is one of rural-minded credit. In the view of the Committee, attempts so far made were in the nature of attempts to counteract the internal weaknesses of the credit structure without taking into consideration the weaknesses of the rural structure as a whole, much less its small adjustment to the external mechanism of urban trade and finance. Most reforms of the co-operative movement have been at best futile attempts to combine the weak against the strong in circumstances in which the weak have had no chance. Effort was devoted to thrift, multi-purpose, better living, without correcting the maladjustment between rural and urban economies. The first task is, therefore, to rectify this position and enable co-operatives to function properly. Until then all endeavour at reorganization in the expectation that the internal socio-economic structure in the village will create conditions for co-operative development would be futile. It is not correct to say that if co-operation has failed in smaller things, it is because it has not attempted bigger things. The multi-purpose idea in itself cannot bring about rehabilitation, and better living also can only be a later objective. Indian agriculture has first to be converted into a way of making a living and then into a way of achieving better living. Thus credit must be considered in conjuction with marketing, processing, and allied economic activities. All these must go together. Bigger units are necessary. Appropriate conditions must be created. These involve (1) finance, (2) flexibility of finance and (3) business technique. Above all, the strength generated must be effective against the competition and opposition of private trade and other private interests. None of these can be had from the internal resources of the co-operative structure. The choice before co-operation is, therefore, to continue indefinitely in various degrees to be in a helpless position or to be helped in order that eventually it may not only help itself but need no other outside help.

(a) **Integrated Scheme of Rural Credit** :--In the opinion of the Survey Committee, that initial help, if it is to be of the requisite strength, to enable co-operatives to withstand the pressure of opposition of vested interests, can come only from the State. The manner of help cannot be merely administrative. Hitherto such assistance has been to over-administer and under-

finance. All this will have to be radically changed. The total problem is not only one of rural-minded credit alone but of rural-minded development of agriculture, rural-minded organization of marketing, processing etc. It is a combination of rural conscience, rural will and rural direction. Such a combination strong enough to be a factor to reckon with in the situation will have to come from Government and more powerful institutions of Government. The State ought to be a combination for the weak at the top, as co-operatives are a mere combinations of the weak at the bottom. The State must join hands with co-operatives in an effort to bring about rural-mindedness so essential to success. Thus part of the recommendations of the Survey Committee relates not only to State guidance and State aid but also to State partnership with co-operatives in credit, processing and marketing. Since the operation of the banking mechanism as a whole has an important bearing on the first of these three aspects, viz,. co-operative credit and the institutional development of storage and warehousing, it is organically connected with the second, viz,. processing and marketing; two other basic considerations that underlie the Committee's recommendations are the need for positive assistance in a sector of commercial banking and the need for State initiative and State participation with the institutions for the promotion of storage and warehousing on an All-India basis. And further, an important aspect of solution has also to be a comprehensive programme of training of appropriate personnel at all levels. The integrated scheme of rural credit proposed by the Committee follows directly from this analysis made and it is based on the three fundamental principles of

(a) State partnership at different levels;
(b) full co-ordination between credit and other economic activities, and
(c) administration through adequately trained and efficient personnel responsive to the needs of the rural people.

The main features of the scheme are as follows:—

(1) **Credit**:--State partnership including financial partnership in co-operative rural credit in order that such credit may

not only be expanded and strengthened for the positive purpose of production and for the positive benefit of the rural producer.

(2) **Processing, Marketing, Storage and Warehousing:**-- State partnership including financial partnership for the benefit of the rural producer in a programme for the organization of processing and marketing on a co-operative basis and for the development of storage and warehousing. The proposals in this context include the creation of a National Co-operative Development and Warehousing Board, an All-India Warehousing Corporation and several Warehousing Companies. The two former have already been set up by the Central Government.

(3) **Other Economic Activities:**— State partnership including financial partnership for the benefit of the rural producer in a programme for the organization on a co-operative basis of such of the other economic activities of the village as are of importance to him as cultivator, agricultural labourer or handicraftsman, such activities to include farming, irrigation, provision of seed and manure, transport, fisheries, dairying, livestock breeding and cottage industries.

(4) **Commercial Banking:**-- Integration of the State financial participation in an important sector of commercial banking in order that the State-partnered countrywide banking institution so formed may among other things be charged with and carry out the positive duty of endeavouring to do its best to help the development of rural and co-operative banking. It will be expected to discharge that duty by the several means open to it including principally the effecting of arrangements for the readier and cheaper remittance of money especially in relation to the relatively undeveloped areas which have been neglected by commercial banks and in which without such facilities no development of rural or co-operative banking is possible. The Imperial Bank of India has been nationalized and has been designated as the State Bank of India.

(5) **Training:**—Recognition of the importance of training of a new type of personnel altogether which is not only technically

qualified but also in its sympathies and attitudes rurally biased in order that the new functions devolving on the State by reason of the above may be discharged both efficiently and for the benefit of rural population.

(6) **Limitations on State Partnership and State intervention:**—Recognition of the need to so design State partnership as to ensure that while responsiveness to the new policies is effectively created, every precaution is taken to safeguard the essential co-operative character of the institution in which such participation takes place, and nothing is done as may lead to State interference in its day-to-day working. Recognition further, so far as co-operative credit and co-operative economic activity are concerned, of the need to so regulate the extent of State partnership at different levels as—

(a) at the rural base to leave scope for the societies to become fully co-operative within a measurable distance of time by the process of themselves replacing the State's part of the share capital;

and (b) at the higher level to retain what may be described as the major partnership of the State until such time however long as may be required in the interests of the co-operative organization at the rural base which, before it develops sufficient strength and for the purpose of developing such strength, will need against the competition and opposition of private vested interests, a support which is at once powerful, sympathetic, financially adequate and technically competent.

(7) **Finance and Funds:**--The Committee has proposed the institution of certain funds for the orderly financing of the reorganization proposed. These are:--

(i) **Under the Reserve Bank:--**

(a) The National Agricultural Credit (Long-term Operations) Fund. (Rs. 5 crores annually besides an initial non-recurring contribution of Rs. 5 crores).

(b) The National Agricultural Credit (Stabilization) Fund (Rs. 1 crore annually).

(ii) **Under the Ministry of Food and Agriculture:-**

The National Agricultural Credit (Relief and Guarantee) Fund (Rs. 1 crore annually).

(iii) **Under the National Co-operative Development and Warehousing Board:--**

(a) The National Co-operative Development Fund.

(b) The National Warehousing Development Fund. Rs. 5 crores annually to be divided between (a) and (b), besides an initial non-recurring contribution of Rs. 5 crores to (b).

(iv) **Under the State Bank of India:--**

The Integration and Development Fund.

(v) **Under each State Government:–**

(a) The State Agricultural Credit (Relief and Guarantee) Fund.

(b) The State Co-operative Development Fund.

(vi) **Under each State Co-operative Bank, Central Co-operative Banks etc.:--**

The Agricultural Credit (Stabilization) Fund.

Of these funds, the five national funds are of special importance. It has been proposed that the allotments for these may be reviewed after a period of five years.

V. Recommendations of the Survey Committee in detail:-

(A) Development of Co-operative Credit:--

(1) Reserve Bank:—

(i) The Reserve Bank of India should collaborate with the State Governments in drawing up plans for the co-ordination and reorganization of co-operative credit institutions on the lines recommended. For this purpose, the Reserve Bank should be statutorily empowered to make long-term loans to State Governments. It should make these loans, as and when necessary and on suitable terms, in order that the State Governments, may,

directly or indirectly, participate in the share capital of state co-operative banks, central co-operative banks, larger-sized primary credit societies, central land mortgage banks, primary land mortgage banks etc. The loans may be made from the National Agricultural Credit (Long-term Operations) Fund.

(ii) The Reserve Bank should continue to give short-term accommodation on the guarantee of the State Government, through state co-operative banks. It should also give medium-term loans (of periods ranging from 15 months to 5 years) to state co-operative banks and through them to central co-operative banks or societies. The present overall limit of Rs. 5 crores should be removed, as well as the restriction relatable to the owned funds of state co-operative banks : the limit should be set by the Reserve Bank's overall appreciation of the financial position of the state co-operative bank, central co-operative bank etc., to which it lends.

(iii) The Reserve Bank should be enabled to give long-term accommodation (i.e., accommodation for periods exceeding 5 years) to land mortgage banks (a) by way of direct loans and (b) by purchase of the whole or part of ' special development debentures ' of the land mortgage banks. It may do so by drawing upon the National Agricultural Credit (Long-term Operations) Fund. This type of operation, however, will be distinct from that of the normal purchase of ' marketable ' debentures as part of the Bank's ordinary operations and in pursuance of its existing policies. In all these cases, both principal and interest should be guaranteed by the State Government.

(iv) The National Agricultural Credit (Stabilization) Fund is to be utilized for the purpose of granting medium-term loans to state co-operative banks, etc. in circumstances in which the Reserve Bank is satisfied that any of its short-term loans to them of which repayment has become due cannot, without serious dislocation to the co-operative credit structure of the State, be repaid in time on account of famine, drought , etc., and consequently that repayment of such loans or part thereof may justifiably be deferred. In such a case, a book adjustment will be made between the Stabilization Fund and the Banking Department of the

Reserve Bank : the short-term loan will be technically treated as repaid but in effect converted into a medium-term loan from the Reserve Bank's Stabilization Fund. The Reserve Bank may make this facility conditional on the State Co-operative Bank concerned maintaining a similar Agricultural Credit Stabilization Fund; the same condition may be made applicable to central co-operative banks and, where feasible, to the larger-sized primary societies; the Reserve Bank may further insist that part of the overdue liability should be met from the Stabilization Funds kept within the co-operative credit structure itself.

(v) The operation of these Funds, and the planning and execution (within the Reserve Bank's own sphere) of the programmes and policies for which they are intended to be utilized, should remain the responsibility of the Reserve Bank and its Board, in their normal functioning, and should not be vested in a separate body, statutory or other. The Agricultural Credit Department of the Reserve Bank should be reorganized and strengthened for the purpose of discharging adequately, the additional responsibilities placed on the Bank in this context. The Standing Advisory Committee of the Reserve Bank should be continued, though as a smaller expert body. At the same time, there should be an Advisory Council which is representative of the appropriate interests on a nation-wide basis. This Council should be common to the Reserve Bank and the Ministry of Food and Agriculture, including the National Co-operative Development and Warehousing Board.

(2) **Central Government.**

The Ministry of Food and Agriculture should utilize the National Agricultural Credit (Relief and Guarantee) Fund in order to give grants, by way of relief, to co-operative credit institutions, through the State Governments concerned, for the purpose of writing off irrecoverable arrears, where these have assumed a magnitude which threatens the stability of the structure and provided that the Ministry is satisfied that such arrears have arisen from causes, such as widespread or chronic famine, beyond the control of the co-operative insti-

tutions concerned. Relief from this Fund may be conditional on the State Government making a stipulated contribution for the same purpose, from a corresponding Agricultural Credit (Relief and Guarantee) Fund maintained by it.

(i) The State Governments will be responsible for the implementation of planned programmes of credit development which will be drawn up in consultation with the Reserve Bank.

(ii) Taccavi and similar agricultural loans from State Governments, and Central Government Funds, if any, channelled through State Governments, should (subject to the following exceptions) be strictly limited to ' distress ' finance, to meet contingencies such as famine, scarcity, etc. The exceptions are as follows:

(a) Where co-operative credit institutions are yet to be developed and purely as a transitional arrangement, taccavi may continue to be given for productive purposes. But in all such cases co-operative institutions should be sought to be promoted as early as possible.

(b) Special credit arrangements may be made for certain areas or for certain classes of people. The former would include areas which are markedly undeveloped in the economic aspect (e. g., regions of chronic famine) or in both social and economic aspects (e. g., areas inhabited by backward tribes). The latter would comprise economically backward occupational classes for whose benefit special policies of rehabilitation are adopted.

(3) **The Co-operative Movement —**

(i) **Structure and personnel :**

(a) A phased programme for the reorganization of co-operative credit institutions at all levels should be drawn up by the State Governments in consultation with the Reserve Bank.

(b) The re-organizations should be on the basis of major State partnership. Such State partnership should continue to be ' major ' for an indefinite period at the apex and district levels. It will be so for a more limited period at the primary level. State participation will be direct at the apex level and indirect at the district and primary levels, i. e., through the state

co-operative bank in the case of central banks, and through the state and central co-operative banks in the case of larger-sized primary credit societies.

(c) Trained personnel for the key posts of credit institutions at the higher levels, and where feasible also of the larger-sized primary societies, should be deputed to these institutions, wherever that is necessary and suitable, from cadres instituted either by the State Co-operative Bank (if sufficiently strong and developed) or by the State Government. (For marketing, etc., as distinguished from credit, this function of providing technical personnel will necessarily devolve on State Governments and not on State Co-operative Banks). The State Government's Co-operative Service may, in suitable cases, be reorganized in two broad divisions: (a) administrative and (b) technical. There would thus be a State Co-operative Technical Service (Class I and Class II) and a Subordinate Co-operative Service (Technical).

(d) There should be co-ordination of the maximum possible extent between the short-term and long-term parts of the credit structure. While remaining legally and financially distinct from each other, State Co-operative Banks and Central Land Mortgage Banks should have a common administrative staff and, if possible, a common Board of Directors; where the latter is not feasible, there should at least be some directors common to the two boards.

(e) One of the main lines of future development of the primary credit structure should be in the direction of organizing larger-sized societies with limited liability.

(f) Complementary to the recommended establishment of a National Agricultural Credit (Stabilization) Fund in the Reserve Bank, individual Agricultural Credit Stabilization Funds should be instituted by State Co-operative Banks and Central Co-operative Banks and, wherever possible, also by larger-sized primary credit societies.

(ii) **Operations and Supervision :**

(a) The basis for short-term credit should be the system of 'crop loans'—a system which concentrates on loans for productive purposes; provides short-term loans on the basis that a crop is

anticipated, not that a title exists; relates such loans in amount to the estimated outlay on raising the crop; and, as and when the crop is sold, recovers the loans from the proceeds of the sale. It is proposed that the loans should, to the maximum extent possible, be disbursed in kind.

(b) The subsistence needs of the agricultural producer—as distinguished from specific ' consumption' needs—should be met, as part of normal agricultural credit requirements, by the primary credit society. For credit needs connected with specific items of consumption (such as marriages and illnesses), a 'chit fund' may be incorporated within the frame work of the larger-sized primary credit society. The membership of the chit fund may be wider than that of the society and may include, not only the cultivators, but also the agricultural labourers, and the handicraftsmen and artisans of the village.

(c) Medium-term loans (fifteen months to five years) should be provided by the short-term structure of co-operative credit; in this context, special attention should be paid to loans for the purchase of livestock. The making of long-term loans should be the responsibility of land mortgage banks; these should be established (or reorganized) in different States.

(d) At the district level, the central bank or the branch of the apex bank should have a ' section ' for dealing with long-term credit on an agency basis. This ' section ' may be converted into a branch of the central land mortgage bank in course of time. Eventually, primary land mortgage banks should be formed.

(e) Loans of land mortgage banks should be primarily for productive purposes. Different types of aid and accommodation from Government and the Reserve Bank are envisaged. The flotation of ' rural debentures ' is among the various changes recommended in system and procedure.

(f) Supervision of societies should be a function of the apex and central banks; audit along with general administration, should continue to be the responsibility of the State Government.

(B) Development of (1) Co-operative Economic Activity, Especially Marketing and Processing and (2) Storage, Warehousing and Distribution.

(1) Co-operative Economic Activity, especially Marketing and Processing.

(i) The National Co-operative Development and Warehousing Board should, from its National Co-operative Development Fund, make long-term loans, on suitable terms, to State Governments to enable the latter to participate in the share capital of co-operative societies when undertaking such activities as processing, marketing, dairying, etc.

(ii) **The State Governments:**--The responsibility for strengthening the administration, for providing the necessary technical services and generally for implementing a planned programme of co-operative processing, co-operative marketing, etc. will, of course, primarily vest in the State Government.

(iii) **The Co-operative Movement:**--

(a) Co-operative societies for marketing, processing, dairying, etc., may be organized in conformity with a plan drawn up by the State Governments in conjunction with the National Co-operative Development and Warehousing Board. The organization of the societies should be on the basis of major State partnership. Trained technical personnel for these purposes should be provided by the State Government.

(b) Extension and development of co-operative marketing societies at the primary level and at the other levels to the extent necessary to support the primary structure, is envisaged. The programme should be vigorously pursued; but, to start with, societies should be organized at selected places after adequate preliminary consideration and preparation, with a view to complete success being assured at the important initial stage of development. This also applies to societies for processing and other important economic activities.

(c) It is necessary to ensure by positive State supervision, that every marketing society at the primary level is so composed and organized and its affairs so conducted that the medium cultivator certainly, and the smaller cultivator wherever possible, is effectively represented in the organization and his interests adequately looked after by those in charge of it.

(d) Wherever a regulated market exists in the area of operations of a primary marketing society, the local marketing society (as also the local co-operative banking organization, if any), should have the right to nominate one or two of its members on the Market Committee; where the regulated market happens to be managed by the All-India Warehousing Corporation or the State Warehousing Company, this right would be exercised in relation to the Advisory Committee formed to assist the Officer of the Company or the Corporation.

(e) In regard to marketing societies (also processing and similar societies), there should be compulsory additional contributions to share capital, the amount of contribution being related to the turnover of a member's sales through that society or to the size of the loan taken by the member (for example, from a credit society with which the operations of the marketing or processing society are co-ordinated).

(f) As a rule, there should be no compulsory acquisition of processing plants for the purpose of entrusting them to co-operatives but, where members of a co-operative society or persons prepared to form themselves into a co-operative society offer to subscribe not less than 30 per cent. of the share capital, the State Government may, after notification, compulsorily acquire the concern for this purpose.

(g) State Governments should take steps for licensing all plants, factories and mills (other than at the cottage industry level) engaged in the processing of agricultural commodities or in related activites and meanwhile promote, as soon as possible, such legislation as may be necessary for the purpose. Before issuing a new licence in any particular area, Government should ascertain whether any existing co-operative society, or one likely to be formed, is both willing and in a position to take up the work. In that event, the licence should be issued to the society and not to the private party.

(2) **Storage, Warehousing and Distribution :—**

(i) The National Co-operative Development and Warehousing Board should be in charge of two distinct, but organi-

zationally inter-related, lines of development concerned with storage and warehousing on the one hand, and distribution on the other, the distribution pertaining to the basic requirements of the cultivator (a) as producer and (b) as consumer. It should plan and finance such activities by granting loans, subsidies, etc., drawing for this purpose on the National Warehousing Development Fund. Another use for this Fund will be to enable the Board to subscribe to the share capital of the All-India Warehousing Corporation besides enabling the latter, as well as State Governments, in their turn, to subscribe to the share capital of State Warehousing Companies. Lastly the State Warehousing Companies can themselves contribute to the share capital of co-operative marketing societies, etc., which take up the provision of storage or warehousing as one of their primary functions.

(ii) The All-India Warehousing Corporation should be in charge of the development of storage and warehousing at centres of All-India importance.

(iii) The State Warehousing Companies, formed by joint contribution to the share capital by the All-India Warehousing Corporation and the State Governments concerned, should be in charge of the development of storage and warehousing at centres of importance at the State or district level.

(iv) The management of the regulated markets, if any, at centres to which the All-India Warehousing Corporation or the Warehousing Company has extended its operations should be statutorily entrusted to that institution. A local Advisory Committee may be appointed to assist the officer of the institution at such places.

(v) The co-operative organization will be concerned with the development of storage and warehousing in the interior of the district, e. g., in smaller towns, especially if such towns happen to be marketing centres. The picture will be complete if societies in the bigger villages will also each build their own godowns, seed stores and so on, in exercise of their multi-purpose funcuons.

(vi) At all the levels mentioned above, godowns and warehouses may also be used for the purpose of distirubtion of commo-

dities such as fertilizers, etc., as also articles of basic use to the cultivators such as sugar, kerosene and matches. Such distribution should be done on " agency " basis , i.e., without trading risk to the Corporation, Company or Society.

(vii) There will ordinarily be no compulsory acquiring of godowns and warehouses for the purpose of entrusting them to the All-India Warehousing Corporation or a State Warehousing Company or a Co-operative Society; where, however, a godown or a warehouse is situated at a regulated market or other place notified in this context, the acquisition may be compulsory, but on payment of compensation etc.

(C) **Development of Rural and Co-operative Banking Facilities.**

These facilities will be provided principally by the State Bank of India. The object of the Committee is the creation of one strong, integrated, State-sponsored, State-partnered commercial banking institution with an effective machinery of branches spread over the whole country, which, by further expansion can be put in a position to take over cash work from non-banking treasuries, provide vastly extended remittance facilities for co-operative and other banks thus stimulating the further establishment of such banks, and, generally follow a policy of advances—including advances for agricultural purposes—which while not deviating from the canons of sound business, will be in effective consonance with national policies as expressed through the Central Government and the Reserve Bank.

(i) The State Bank of India should be formed by the statutory amalgamation of the Imperial Bank of India and the other State-associated banks, namely, the State Bank of Saurashtra, the Bank of Patiala, the Bank of Rajasthan, the Bank of Indore, the Bank of Baroda, the Bank of Mysore, the Hyderabad State Bank, and the Travancore Bank, (together with a few minor banks); the share capital of the new institution should be expanded, and the additional shares allotted (on the basis of non-transferability and restricted dividend) to the Government of India and the Reserve Bank; in addition, the Government of India should also take over certain shares now held by State Governments;

together, the Central Government and the Reserve Bank should hold a majority of votes in the State Bank. The Committee has suggested that the composition of the share capital of the new institution should be such that the Government of India and the Reserve Bank will together hold 51% of the share capital and of the votes.

(ii) A majority of the Directors of the Central Board of the State Bank should be nominated by the Central Government and the Reserve Bank. The Chairman should be appointed by Government after consultation with the Board. The appointment or removal of the Managing Director and the Deputy Managing Director should be subject to the approval of Government.

(iii) There should be six Local Committees, one each for six suitable areas into which the jurisdiction of the Bank should be divided. The Chairman and a majority of members of the Local Committees should be nominated by the Central Board.

(iv) The State Bank of India should pursue a large and expeditious programme of branch extension to and beyond the district headquarter places.

(v) The dividend on the shares held by Government and the Reserve Bank which should not exceed 5%, should be credited to an 'Integration and Development Fund' to be established within the State Bank itself. The losses, if any, beyond the agreed level, on the opening of new branches should be met out of this fund, as also certain expenses consequent on the establishment of the Bank. It has been suggested that an initial contribution of Rs. 50 lakhs and subsequent **ad hoc** contributions (as and when necessary) should also be made to the Fund by the Government and the Reserve Bank.

(vi) It will be expected of the State Bank of India to be responsible to the needs of co-operative institutions connected with credit, marketing and processing. The branch expansion of the State Bank of India should be co-ordinated and, wherever possible, positively associated with the development of co-operative credit. Particular attention to this aspect should be given at the 'sub-divisional' level.

(D) Development of Facilities for the Training of Personnel.

(i) The Central Committee for Co-operative Training, which is already taking steps to organize co-operative training on a country-wide basis (a) by establishing regional centres for intermediate personnel (besides the All-India Centre at Poona for higher and intermediate personnel) and (b) by improving the training facilities for subordinate personnel in collaboration with State Governments, should (to the extent required) be placed in possession of larger funds by the Government of India and the Reserve Bank in order that it may further enlarge the scope and expand the coverage of its training facilities.

(ii) The training facilities should cover all levels of training and all personnel whether departmental or institutional. In particular, attention should be paid to banking, marketing and industrial co-operatives, as also to administration, supervision and audit.

iii) The training facilities should be co-ordinated with the needs of personnel of community projects and extension blocks.

(iv) In organizing such training the Central Committee should take full account of the need to train a new type of official who will be responsive to rural needs, besides possessing the necessary background of training.

(E) Miscellaneous Recommendations of the Survey Committee.

(1) **Role of Private Agencies.**—As the main object of the integrated scheme of credit is to develop and strengthen a State-partnered co-operative banking structure so as to provide an efficient institutional alternative, the Committee has not assigned any place to the private moneylender in the scheme. It is hoped that the moneylender as well as the trader, the indigenous banker and the commercial banks, will, in their individual degrees supplement the integrated scheme of rural credit, though not finding place in the scheme itself.

(2) **Rural Savings**;—From the data available to the Survey Committee, the Committee has come to the following conclusions:-

(a) The need to make rural savings possible is much more important than to render rural savings available.

(b) To the extent they exist, rural savings are likely to be rendered available where most seem to be used for rural needs.

(c) Rural savings fall so short of rural needs, that they must be supplemented from, but not diverted to urban areas.

In the opinion of the Committee, the Government loans should be designed to mobilize savings from urban and semi-urban areas rather than from rural areas. According to the Committee there are four specific ways in which the primary credit society, the central bank, the central land mortgage bank, the marketing or the processing society or other societies should mobilize rural savings on a much larger scale than hitherto, viz., by the promotion of chit funds, retirement of Government capital in co-operative banks, development of co-operative marketing, processing and other forms of co-operative activity and by issue of co-operative debentures of land mortgage banks. The Committee recommends that rural debentures issued by a land mortgage bank should, as far as possible, be for specific projects of development in which the village is interested in different degrees and should be issued at the time of the harvest and sale of crop. In regard to the period of repayment, these debentures should be so designed as to suit the requirements of the rural investor. A mobile bank in any area should be allowed to function only on the condition that the commercial bank concerned undertakes to advance loans for agricultural and allied purposes up to amounts not less than the deposits it collects from that area.

(3) **Debts and Tenancy Legislation:**—The Survey Committee accepts the social desirability of different types of legislation of importance to rural credit, viz., debt relief, moneylending, tenure and tenancy, which result in curtailment of credit. The needed reform cannot come without dislocation in the particular sector as its accompaniment. While it is desirable to provide for the change, so also is it necessary to provide against the dislocation. Complementary to the desired change is the need, in the opinion of the Committee, for large-scale development of institutional credit co-operative or State-sponsored. This should also be accompanied by a change in the present emphasis which institutional credit lays on ownership. In regard to short-term or medium-term

credit at least there might be a shift from ownership of land to produce from land as the basis of credit and from dependence from eventual sale of land to dependence on effective supervision of operations as basis of recovery of credit. The Survey Committee endorses the recommendations of the Gadgil Committee in regard to the control of the activities of moneylenders but considers that the rates of interest prescribed should be reviewed and revised in a realistic manner. It also recommends the review of arrangements for the enforcement of the moneylending legislation by the provision of adequate supervisory staff preferably under the Registrar of Co-operative Societies.

(4) **Stabilization of Agricultural Prices :**—It is obvious that even the best system of credit will fail if prices fall sharply. Underlying all the recommendations of the Survey Committee is the important assumption that price policies of Government will be such as to ensure the stability of agricultural earnings and, therefore, the stability of agricultural credit. Should the need for price support arise, there will have been established a widespread network of godowns and warehouses with an organized structure of co-operative marketing and processing at various points in the country, strategic for the purchase and storage of foodgrains. Government may pursue a policy of price support or price control. In the case of the former, the purchase is at a guaranteed minimum price. But there will be needed physical accommodation for storage of grain all over the country. The warehousing organization proposed will provide the physical storage and would also co-ordinate it between the All-India, State and village levels. Further, it will make available an extensive body of trained personnel for the custody of the produce and for its grading and valuation.

(5) **Forward Markets:**—The Survey Committee recommends that an adequate enquiry should be conducted for ascertaining—

(a) the extent to which damage, if any, is caused by these institutions to the interests of the rural producer and if the damage is appreciable, what measures are needed to prevent it, and

(b) whether the institutions can be so reorganized and controlled as to be of positive benefit to the rural producer in the

context of economic activities being organized under State-partnership.

(6) **Famine Funds :**—Since credit forms part of the larger problem that presents itself in the context of widespread rural distress and economic dislocation, there is a need for stabilization of credit, and hence the Committee has made recommendations such as those connected with the National Agricultural Credit Stabilization Fund in the Reserve Bank and corresponding funds in the State Co-operative Banks etc. If the remedy be relief to, and not rehabilitation, of the credit institutions, the establishment of the National Agricultural Credit Relief and Guarantee Fund with the Government of India and of corresponding Funds with the State Governments, has been recommended. There are of course Famine Funds in a number of States but in certain of them they are not adequate. The Committee suggests, therefore, an increase in the State Famine Funds and for instituting such funds by the States that have not hitherto established them and for instituting an adequate Central Famine Fund by the Government of India, so that individual States may be helped to tide over difficulties created by any acute or recurring conditions of famine, or scarcity or grave calamity like floods etc.

(7) (a) **Village Roads :**—The village roads connecting the Mandies are deplorable in the extreme and it is the cultivator who pays for the lack of development. The Survey Committee therefore, suggests that much larger allocation of funds be made together with a diversion of a larger effort towards the improvement of village roads.

(b) **Transport Charges :**—State-owned bus transport has begun to operate to a varying extent in different States. But these buses have not yet taken up transport of goods or produce on any appreciable scale. The Committee recommends an examination of the rates which railways and buses charge for the conveyance of the cultivator's produce, to the consuming areas. A similar examination should be carried out in regard to rates charged by boat and steamer services, wherever sea, or river or canal is the means of transport. These remarks apply also to bridges, ferries etc., which have been either neglected or not

constructed at all in many tracts of the country. The Co-operative Planning Committee's recommendation for establishing co-operative transport societies and workshps for servicing motor transport as also transport by country-craft on a co-operative basis deserves consideration, in the opinion of the Survey Committee.

(8) **Finance for Rural Industries :**—While recognizing that there are certain difficulties which are special to cottage industries, the Survey Committee opines that the problem of organizing such industries on co-operative lines will have a parallel to the problem of organizing agricultural credit and agricultural economic activities on a co-operative basis. The Survey Committee, therefore, takes the view that Central and State Governments and such bodies as the All-India Handloom Board, the All-India Khadi and Village Industries Board might think in terms of active partnership in finance and State participation in the organization of these industries as distinguished from a programme confined to loans, subsidies and similar ad hoc assistance. While disapproving the idea of starting separate industrial co-operative credit banks, the Committee makes the suggestion that the State Financial Corporation and the Reserve Bank of India should play a more active role in the matter of financing co-operatively organized rural industries, the former by making long-term and medium-term loans available and the latter by meeting the short-term resources of the co-operative credit structure. The planned provision of different types of finance for cottage industries which can only be in conjunction with a planned programme of development of those industries will require thorough investigation by a competent body before a scheme of credit for cottage industries can be worked out in detail. Thus the whole matter of credit arrangements for cottage industries should be inquired into. In the opinion of the Survey Committee, until the more fundamental aspects of the problem are reinvestigated, analogous to that in respect of agricultural credit, there is the danger of the more superficial, orthodox and more conservative solutions being adopted, which will ultimately make no impression on the problem. In the sphere of industrial credit, also, according to the Committee, the most needed line of development may be that of State-partnered co-operative instituitions in connection with the particular industry. The

Committee notes with satisfaction the establishment of a co-operative spinning mill with active State help at Guntakal in the Andhra State.

(9) **Administrative Reforms** :—Considering how the deficiencies and unresponsiveness of the administrative set-up will thwart the programme chalked out by the Survey Committee, firstly the most important need for Government is to make its administrative role in the village more and more that of a beneficent authority and less and less that of a tax-gatherer, which it has been till recently. Secondly, in the village there is the need for Government to assume the function of real partnership in the economic development especially for the middle and lower group and not merely that of administration on the one hand or of advice and extension on the other. Thirdly, there is the need not only to simplify development administration at the village end as in National Extension Service but also to achieve effective co-ordination between different administrative agencies of development including that of Local Self-Government and those agencies and the machinery of basic administration. A large field remains to be explored in connexion with the more effective association of the local bodies of administration—Panchayats, Local Boards, etc.—with local projects of planned development, e. g., those relating to minor irrigation, no less than roads, public health or primary education. As for the other and much needed co-ordination between the agencies of development and of basic administration, the proper line of re-organization would seem to be that the Collector himself should become the Chief Development Officer of the District and so too, in their respective jurisdictions, the sub-divisional revenue officials. Lower down the subordinate revenue officials should have a more restricted and specialized role than at present, and the "general" functions they now exercise should be passed on progressively to the appropriate developmental staff. There will then be a transformation of the old order rather than the introduction into it of miscellaneous and inchoate sub-strata as at present, or the replacement of it altogether by a wholly untried new order. At the higher level, in the Secretariats of State Governments, a tentative line of reorganization, which suggests itself to the Committee (for the bigger States

at any rate) is that the Chief Secretary should be assisted by two additional Secretaries (or other top-ranking Secretariat officials), one in charge of basic administration in its more general aspects (such as organization and methods) and the other in charge of all items of development which are of importance to the rural area or intimately connected with those items, the main subjects thus co-ordinated at the very highest level in the Secretariat being (1) Agriculture, (2) Co-operation, (3) Cottage Industries and (4) Industries. The main requirements are that for purposes of formulation and administration of policy at the State Secretariat level, co-operation should be treated as an organic part of " rural development" in all its main aspects; that administration of development as a whole should be intimately co-ordinated with basic administration; and that the two together should be placed at the highest point of responsibility and co-ordination in the Secretariat.

(10) **Larger Context :**—The Survey Committee discusses some of the more important directives of the Indian Constitution and observes : that any plan which subserves these objectives must be designed for the weaker sections of the population. Thus the medium and small cultivators, the agricultural labourer, the village handicraftsman, the small-scale industrialist, the industrial labourer, the small operator in industry and transport, the lower middle classes and the backward classes and tribes have a prior claim on a democratic and planning state. They are numerically large, economically important and socially disadvantaged. In the case of most of these mere legislative, administrative and educational efforts will not solve the problems of their welfare. For removal of their disadvantages nation-wide, State-sponsored, State-financed measures are necessary. India has set before itself the goal of a Co-operative Commonwealth and there can be no Commonwealth without wealth for the common man. The common-wealth would ever belong to rural India. The common man resides in rural India and his heart and interests continue to be in rural India, though in the present industrial economy he has joined in appreciable numbers the ranks of industrial labour. The only plan which can restore vitality to the rural economy and build up the prosperity of the common man is one which imparts strength to both

agriculture and rural industry. Only then will conditions have been brought about for the well-being of the common man and, therefore, for the realization of the Commonwealth. The process can, therefore, be that of co-operation understood in a more broader conception as the purposive union of all the forces which work for the common good and in particular the co-operation which joins together in a common purpose the united strength of the Indian village with the united strength of the Indian State. It is only when co-operation is interpreted in a wider and more positive sense as a dynamic instrument of change the opposite of regimentation on the one hand, and on the other, of drift and stagnation and State-effort is conjoined with co-operative endeavour, that co-operation will be a potent force in the country's economic development. The integrated scheme of rural credit recommended by the Committee is conceived as an organic part of the wider endeavour. The Survey Committee lays considerable emphasis on the urgency of implementing the various recommendations as they are accepted.

CHAPTER VI

Pilot Schemes of Integrated Rural Credit and Marketing.

The proposals made by the Rural Credit Survey Committee for reorganization of rural credit being of a far-reaching character were first considered by the Second Indian Co-operative Congress held at Patna. The Conference was attended by the representatives of the Central Government, the Reserve Bank of India and the official and non-official co-operators of other States. The Scheme of State Partnership, as formulated by the Survey Committee, was modified by the Conference in three respects :—

(1) The extent and duration of State partnership, should be flexible depending on the needs of the individual institutions.

(2) The number of nominees to be appointed by the State Government on the Board of the State Co-operative Bank should not exceed 3 persons.

The powers of Government nominees on the Board should not be exercised in respect of internal administration of societies and appointment of paid staff.

(3) The overriding powers of the State Government should be strictly restricted to the loan policies of the institutions.

The Conference of State Ministers and Registrars of Co-operative Societies held in April 1955 under the auspices of the Government of India endorsed the recommendations of the Patna Congress. The officials' Conference held under the auspices of the State Ministers' Conference passed several resolutions relating to agricultural credit, marketing, processing, storage and ware-housing, training and education, administration and targets for the Second Five-Year Plan were fixed. Two of the resolutions passed thereat and endorsed by the State Ministers' Conference were as under :—

"The proposals discussed above will involve a large outlay and will call for a considerable organization. It is recommended

that in 1955-56 and 1956-57 the integrated programme be undertaken on a pilot basis in two or three selected districts of self-contained units in every state and the funds required for this purpose be found in the First Five-Year Plan. The pilot project should cover the reorganization of the central bank and the starting of marketing and larger-sized societies in selected areas of the district but in each case with adequate provision for finance and trained personnel.

"The long-term goal should be the organization of rural business on a co-operative basis in such a way that within fifteen years 50 per cent of the total business in credit, marketing and processing etc. is co-operative; with this ultimate objective in view but on the basis of realistic appraisal of all the factors meanwhile involved, realistic targets should be worked out for each State in the context of the Second Five Year Plan. This should be done in the next one month or two. The targets would be related to the availability of trained personnel etc. for which as well as for the financial arrangements necessary full provision should be made."

2. **Significance of Pilot Projects and the Need for Experimentation** :—It may be noted at the outset that the co-operative development project is not merely a pilot scheme in a technical field or in respect of a special enterprise but it represents a major attempt at changing the whole economic system from an acquistive type to a democratic social order. The development project is, therefore, of profound significance to the social and economic life of the community. This plan of co-operative development is framed in the light of prevalling conditions and the immediate needs of our economy as well as the long-range objectives of national policy. The immediate need is to gear the economy to an increased scale of effort in all directions, so that more will be produced and equitably distributed. In a country where all the important factors of production are scarce except labour, the only means by which the immediate need has to be met is by arranging the scale of production in a manner that will allow the fullest and the best use of our labour power. This means that the economy has to be broad-based and decentralized, and since its strength will be derived from the union of men, organized for common effort rather than

union of capital, it has perforce to function in compact local units which will allow for the maximum degree of mutual aid and understanding. Co-operativization has therefore, to be thought of as a necessary counterpart of the process of decentralization in whatever field, whether in agriculture, industry or trade it is undertaken. The measures undertaken to develop co-operatives, therefore, no longer represent isolated efforts as in the past to solve some specific problem or the other of current importance, but they represent a comprehensive effort to raise the total economic life of the community to high levels of effort and enjoyment to institutions which fall in line with the objective of national policy. The plan has naturally to draw its main inspiration from the people who voluntarily organize themselves to satisfy their wants through an association with others who have a like economic need. The scheme of co-operative development suggested by the Rural Credit Survey Committee covers the reorganization of co-operative credit, marketing, processing and storage through State assistance and State partnership. The pilot projects are generally intended to follow the general pattern of co-operative reorganization which has been now accepted as the future plan of co-operative development for the country as a prelude to the launching of the actual scheme on a State-wide basis. This experimentation is, in the first instance, necessary because the true significance of the new measures must catch the imagination of the people and make them whole-hearted supporters of the cause. We may provide the capital, we may provide the necessary facilities for the registration of societies and we may even provide the trained personnel to administer the societies but the people themselves must have new sense of direction and purpose and must feel a new urge to shoulder responsibilities which a democratic form of organization entails. We are, for instance, working on the assumption that the members who are given crop loans will utilize them for production purposes. It will not be possible to supervise the effective application of the loan in every individual case. Further, there is also the assumption that the produce that is grown with the aid of the credit given will be sold through the marketing societies. Here again, it is the loyalty and the sense of responsibility of the member more than administrative compulsions which will count. No devices by mere structural alterations will succeed

in bringing about the necessary psychological changes and adaptations which are so necessary for success."

3. In accordance with the recommendations of the State Ministers' Conference, the pilot projects have been launched in different States in order to implement on an experimental scale the recommendations of the Rural Credit Survey Committee. It may be noted that these schemes were launched towards the end of 1955 and were therefore, in operation for a little over two years. It is too early therefore, to assess the results achieved during this short period and the results also are not yet clearly discernible. The following paragraphs indicate therefore, what is aimed at during the period of the Second Five-Year Plan rather than the progress achieved in the implementation of the schemes. The recommendations of the Survey Committee as they apply to the field are :—

(1) State participation at all levels of co-operative organizations—primary, central and apex. This refers to contribution to the share capital by the State Governments for the purpose of strengthening the co-operative credit structure.

(2) Establishment of larger-sized primary credit societies with an area extending to 15 to 20 villages so as to make them financially and economically self-sufficient by having adequate transactions and to permit employment of whole-time paid staff. This is with a view to extend rural credit through co-operatives.

(3) Loan policy in agricultural credit societies should be geared to the crop production needs of members.

(4) Credit should be linked up with marketing, so that loans advanced for raising crops to the members of agricultural credit societies are recovered through the agency of the marketing society.

(8) Organization of co-operative processing as a prelude to co-operative marketing.

(6) Establishment of regulated markets for the purpose of regulating marketing of agricultural products.

(7) Administration through adequately trained and qualified personnel responsive to the needs of the rural population in a true spirit of rural-mindedness.

4. The Pilot Scheme in U. P.—In order to spearhead the above recommendations a pilot project was started in U. P. in May 1955 by the Co-operative Department jointly with the Planning and Research Institute, U. P.

The details of the scheme are as under :—

(a) **Selection of Area for Experimentation :**—In selecting the area for launching the scheme, the following points were taken into consideration :—

(i) The area should be well-irrigated and should afford scope for expansion of credit in relation to agricultural production.

(ii) The agriculturists in the area should be well-acquainted with the philosophy and practice of co-operation. There should be a well-established regulated market in the area.

The area that satisfied these conditions was the Nauranga Circle in Kanpur Distict. It has 102 villages within a radius of eight miles of mandi at Nauranga. The area is well-irrigated by the canals and produces two crops in a year. The crops in the area are wheat, gram, barley, paddy, sugarcane, oil-seeds, jowar and bajri. The pilot scheme in the area contemplated forming a primary marketing society, covering all the 102 villages in the area. It was also decided to form eventually four larger-sized primary credit societies in the area of the marketing society.

(b) **The Existing Position :**—There were twenty multi-purpose societies in the area covering twenty villages. They were multi-purpose societies only in name. Their share capital was Rs. 12,662 and they had no deposits. The total amount of loans advanced during 1954-55 was Rs. 11,398/-. The societies are affiliated to the U. P. Co-operative Bank, there being no central bank in the district. The Bank lends to the societies at the rate of 7% and the societies in turn advance loans to their members at nine per cent. For promotion of their noncredit activities the societies are affiliated to the Nauranga Block Union which is an organization for undertaking the supply of farm and domestic requirements and marketing of produce of members. The Union owns a seed-store. The stocks at the seed-store are derived from advances of loan in kind made by the

State Government. The seed from the seed-store is distributed to member-cultivators directely at **sawai** rates, (i. e., 125 per cent of the seed advanced–25% interest). The Block Union, Nauranga, provided the nucleus for starting a primary marketing society. Its bye-laws were sutably amended so as to conform to the pattern of a marketing society.

(c) Features of a larger-sized Credit Society.

(i) **Area of Operation and Membership :**—The area of operation of the proposed society comprises thirty villages within a radius of three miles from Nuranga, which is the headquarter. The area can provide about 2000 members so as to have adequate business transactions. There are three classes of members—ordinary, special and nominal. Ordinary membership is open to all residents in the area of the society. Special membership is reserved for the State Government. Those who join the society under the Chit Fund Scheme are called nominal members.

(2) **Capital :**—Capital is raised by means of shares contributed by individuals and contributions received from the State Government, Deposits and Loans. Shares are of two kinds: A and B. " A " class shares are of the value of Rs. 10 each and are allotted to individuals. 50% of the value of a share is payable on allotment and the balance in two equal six-monthly instalments. " B " class shares are of the value of Rs. 100 each and are subscribed to by Government. They are payable in full on allotment. It is proposed to raise a minimum share capital of Rs. 20,000/-, half of which will be contributed by the State Government. The latter had not yet made up its mind and the U. P. Co-operative Bank had stepped into the place of the State Government and taken shares of Rs. 10,000 pending contribution from the State Government. The State Bank will withdraw its shares as soon as the participation of the State Government comes into effect. It has also been decided that the shares purchased by the Bank will be retired in four equal annual instalments commencing from the fourth year of investment. This means that shares purchased in 1956-57 will start retiring from the year 1959-60. This is only a tentative arrangement until the terms of State-partnership and the manner in which share capital is to be retired, are finalized.

(d) The liability of an 'A' class shareholder for the debts or liabilities of a society is fixed at four times the nominal value of shares. The liability of a 'B' class shareholder is limited to the normal value of shares subscribed. The multiple liability is a compromise between limited and unlimited form of liability.

(e) The society would accept fixed, savings, recurring and home safe deposits. It will also distribute sealed earthen jars among members for depositing small savings. The jars will be opened for counting and crediting the contents to the members' account on important days. The rates of interest payable on fixed, savings and recurring deposits will be 4, and 4½ per cent respectively in the initial stages.

(f) **Borrowings from the U. P. Bank.** The society obtains loans at present from the Kanpur Branch of the U. P. Co-operative Bank, Ltd. The Bank advances loans to the society up to sixteen times the amount of the paid-up share capital invested by the society in the Bank or eight times its owned capital, whichever is less. The rate of interest charged is 4% with half a per cent as rebate, if prompt payment is made. Provision is made for advancing both short-term and medium-term loans to agriculturists at 7-13/16 per cent.

(g) **Issue of Loans to Members.** Provision exists in the bye-laws for making both short-term and medium-term loans. Loans will be on the basis of the productive capacity of members as against the assets as basis, hitherto followed. In making a loan the cost of raising a crop is taken into consideration. Cost of production would include such items as seed, fertilizers, rent, irrigation charges and wages paid to labourers up to the time the crop is ready for disposal. The loan to be advanced for raising a particular crop will not exceed one-third of the value of the estimated yield of the crop in question. In the case of a commercial crop it may go even to 60%. The limit of cash credit to be granted to a member is thus based on the area of the land and the nature of crops he intends to raise during the year. Once the cash credit limit is fixed, the member is at liberty to draw the funds as and when required by him. Until the society makes

arrangements with the Central Bank to keep liquid funds with it for serving the needs of members as they arise, payment from out of the cash credit will be made on fixed days in a month which are usually the bazar days subject to a previous notice of three days being given to the society. The member borrowing is required to execute a cash credit agreement and the member binds himself to market his produce through the sale society under the agreement. In the case of those borrowers, however, who have no marketable surplus to sell but who are nevertheless credit-worthy up to a certain limit, finance is made against their assets. Such a class of cultivators is reported to be fairly large and they pay off their dues from other sources of income. Medium-term loans will be permitted for periods ranging from 15 months to 36 months for productive purposes such as purchase of bullocks, carts, implements, etc. A member is entitled to get a medium-term loan concurrently with a short term loan, subject to the total amount not exceeding eight times his subscribed share capital. For unproductive purposes such as marriage, illness, funeral, etc. loans would be made available through the Chit Fund. A person wanting a loan for this purpose is required to become a nominal member. He may pay Re. 1 as admission fee and contribute Rs. 2 per month or Rs. 12 for every six months. The society allows 4% as interest on amounts so received. Out of the collections, 50 per cent will be credited to the contributor's account as deposit and 50% will be earmarked for a Chit Fund to be loaned out. Auction chits will also be run by the society on the pattern in vogue in Madras.

(1) **Activities of the Larger-Sized Society.** The society will act as an assembling agent of the primary marketing society for collecting the produce of its members with a view to transmit the same to the marketing society. Similarly, it will handle consumer goods as well either on indent basis or cash basis on a restricted scale. Thus it will undertake agency business both in respect of consumer goods or agricultural requisites without undertaking any financial or trading risks.

(ii) **Management of the Large-Sized Credit Society.** The supreme authority of a society vests in the general body which comprises all ordinary members and such nominees of the special

member, viz., the Government, as may be serving on the Board of Management. Each member has only one vote. The Board of Directors consists of elected and nominated persons. The election of the Board of Directors is on the basis of one Director for each village having 50 or more ordinary members. A village having less than 50 members is associated with a neighbouring village for the purpose of election of Directors. In selecting Directors only members from the village or group of villages are entitled to vote. In order to provide equitable representation for all villages on the Board of Management electoral zones have been introduced.

(k) **Distribution of Profits.**

The society can declare dividend on shares up to 10 per cent which is the maximum dividend payable and fixed in the rules, in the case of primary agricultural credit societies. This is no doubt a very high limit and the Co-operative Department hopes to lower it when a suitable atmosphere is created for a larger-sized credit society. No steps have been taken to create an Agricultural Stabilization Fund as recommended by the Credit Survey Committee. The question is, however, under consideration of the Co-operative Department in U. P.

(l) **The Secretary or the Manager of the larger-sized Society**— The society is in charge of a Senior-Co-operative Supervisor of the Department who is styled either as a Manager or as a Secretary. He holds his position subject to the approval of the District Co-operative Officer.

(II) **The Primary Marketing Society of Nauranga.**

1. Salient features of the working of the Marketing Society : The area of operation of the proposed Marketing Society extends to 102 villages situated within a radius of eight miles from Nauranga. All the villages having transactions or dealings with the Nauranga Market are included in its area of operation.

2. **Membership.**—There are three categories of members in addition to special class. 'A' class membership is open to co-opera-

tive societies, 'B' class to agriculturists and 'C' class to dealers. The State Government is classed as a special member, provided it subscribes to 'A' class shares and pays the value on allotment and in the manner determined by the Board of Directors. 'C' class members will be mainly traders with whom the society would transact business and they are nominal members. Nominal membership is provided because in case of dispute, the society may refer their case to arbitration under the Act. They enjoy no privileges or rights attached to membership except trade credits that might be granted.

3. **Capital.**—Capital will be raised by means of share capital and loans will be obtained from the U. P. Co-operative Bank. The minimum paid-up share capital in the first year would be Rs. 20,000 to be raised to Rs. 50,000 in the second year. Of this amount individuals and Co-operative societies are to contribute Rs. 10,000 and the balance will be taken up by the State Government. Shares are of three kinds : 'A', 'B' and 'C', of the value of Rs. 100, Rs.2 and Re. 1 respectively. 'A' class shares are allotted to the affiliated societies and the State Government as a special member, 'B' class shares are reserved for individuals and 'C' class for traders or dealers.

4. **Borrowings from the U. P. Co-operative Bank.**—The Society is affiliated to the U. P. Co-operative Bank, Ltd. The Bank will grant clean credit to the society against its general assets up to 16 times the share capital invested by the Society in the Bank. In addition credit will also be obtained against the pledge of produce up to about 75 per cent of the current market price. It is estimated that in the first year the society will need Rs. 50,000 of which Rs. 20,000 will be derived by way of shares and Rs. 30,000 as loan from the U. P. Co-operative Bank.

5. **General Body.**—The supreme authority vests in the General Body consisting of delegates representing affiliated societies and 'B' class shareholders and such nominees of the special member (Government) as may be serving on the board of management. Each affiliated society would be entitled to elect annually from among its members one delegate, if the membership is 20 or less, and two delegates if the membership is between 20 and 100. If the

membership is more than 100, one additional delegate would be allowed for every hundred additional members or part thereof. Individual members (i.e. ' B ' class shareholders) would be represented on the basis that every village in the area of operation of the society and having 50 or more members shall be allowed one delegate. A village having less than 50 members would be grouped with a neighbouring village for the purpose of electing delegates for the general body.

6. **Constitution of the Board of Directors.** The Board of Directors shall not exceed 15 in number and shall consist of—

(a) Twelve Directors elected in the Annual General Meeting from amongst 'A' and 'B' class delegates, of whom six at least should be representatives of 'A' class members.

(b) Not more than three Directors nominated by the State Government participating in the share capital of the society. No society is, however, allowed to have any representation on the Board until it has invested in the marketing society an amount equal to at least one-tenth of the paid up share capital. The Board elects its own President and Vice-President from amongst its Directors. The Manager is a Senior Supervisor of the Co-operative Department and he holds his position subject to the approval of the District Co-operative Officer. He is generally appointed from a commonly recruited cadre as in the case of a larger-sized credit society.

7. **Activities of the Society.** The main activities of the society will centre round the marketing of members' produce and the provision of warehousing facilities. The society will make produce-pledge loans to members up to 75 per cent. of the market price of goods pledged, depending on the nature of goods. The rate of interest charged on these loans will be 7-13/16 per cent. The society will sell the produce of members by auction and as an agent of the members. It will not undertake outright purchases of goods. The society will construct its own godowns and make arrangements for grading, pooling and transporting of members'

produce. It will also work in closer co-operation with a larger-sized credit society to recover the crop loans advanced by the latter. It will also provide market news service to its members and undertake to distribute goods required by agriculturists such as agricultural implements, plant insecticides, fertilizers and feeding stuffs and essential consumer goods on a cash or indent basis. It will be affiliated to the apex Co-operative Marketing Society and will undertake inter-State supply of goods and even exports on the advice of the apex body.

8. Liability. The liability of a member for the debts or liabilities of the society is limited to the nominal value of the shares held by him individually. The maximum dividend on shares is restricted to 6 per cent. The results of the evaluation of the scheme conducted by the Planning and Research Institute, U. P. are yet awaited.

5. Pilot Scheme in Andhra

With the separation of Andhra from Madras a scheme of organization of rural credit on a wider and broad-based footing through rural banks was in operation prior to the publication of the Report of the All-India Rural Credit Survey. The annual credit requirements of the cultivators in Andhra provided by the credit co-operatives ranged between 6 and 7 per cent. as against the All-India average of 3 per cent. With a view to increasing the coverage of the area, population and finance, the Andhra Government has sanctioned a Pilot Scheme of integrated rural credit to be worked in three select representative areas in the districts of Visakhapatnam, West Godavari and Kurnool. The areas selected for the Pilot Scheme in accordance with the principles laid down by the State Ministers' Conference are reported to be compact, self contained and of representative character in the economic life of the State. They include wet as well as dry cultivated areas, covering a major irrigation project (Tungabhadra) and also an economically backward region. The areas also cover 8 community development and N. E. S. Blocks. The following table indicates the nature of the areas selected for working the scheme on a pilot basis.

(A)

Name of District and Taluk	Community Development or National Extension Blocks.	Total rural population	No. of cultivating families.	Approximate extent of cultivation finance	Percentage of Cultivation finance to be handled by co-operatives in the first year.
		lakhs	lakhs	(Rs. in lakhs)	
KURNOOL DISTRICT					
Adoni	Nandavaram			964	10%
	Kosigi	1.45	0.22		
	Peddathumbalam				
Aluru	Aluru	1.23	0.14		
Pattikonda	Devanakonda	1.09	0.16		
WEST GODAVARI Dt.					
Eluru	Bhimadole	1.74	0.19	190	25%
Tadepalligudem		1.95	0.19		
VISAKHAPATNAM					
Anakapalli	Nakkapalle	1.81	0.27	265	15%
Yelamanchili	Sabbavarom	2.30	0.26		

(B) The statement below shows at a glance the important features of the Pilot Scheme.

Item	Visakhapatnam District	West Godavari District	Kurnool District
Names of taluks in which the scheme will be worked..	Anakapalli and Yellamanchili	Eluru and Tadepalligudem	Adoni, Alur and Pattikonda.
(a) Number of larger-sized societies proposed to be established.	26	36	22
(b) Number of villages covered.	300	247	188
Amount of State contribution towards share capital of :		(Rs. in lakhs)	
(a) Larger-sized societies.	2.31	6.21	2.15
(b) Central Co-operative Banks.	2.00	2.00	2.00
(c) Marketing Co-operatives.	44,000	81,000	78,000
Loan programme—First year :			
(a) Short-term (Production)	32.00	37.00	14.00
(b) Short-term (Marketing)	6.00	5.00	5.00
(c) Medium-Term	2.00	2.00	2.50
(d) Long term	1.00	4.00	5.00
Total	41.00	48.00	26.50

Item	Visakhapatnam District	West Godavari District	Kurnool district
Godown Programme:			
(a) No. of big godowns proposed to be built by marketing societies (costing approximately Rs.1.20 lakhs each) at mandi centres.	2	3	1
(b) No. of auxiliary godowns proposed to be built by larger-sized societies costing about Rs.30,000 each).	13	14	1
	(Rs. in lakhs.)		
State aid by way of loans and subsidies (50 per cent loan and 25 per cent subsidy).	5.18	5.85	1.61
Contribution of societies from their own resources.	1.72	1.95	0.54
Total cost of godowns.	6.90	7.80	2.15
Processing Plants:	One oil mill or rice mill by the Payakarapet Marketing society.	Nil	Adoni marketing Co-operative Society : 1 Cotton gin; 1 Groundnut decorticator; Maddikara Marketing Co-operative. One Cotton gin.

The following paragraphs indicate the details of the working of the scheme:—

(A) **Larger-Sized Societies.**—The bulk of the larger-sized societies proposed to be formed will be brought into existence by converting a central society into a larger-sized one. It is proposed to do this through a process of voluntary amalgamation of the smaller units with the central society. Against the target of 84 societies, 58 societies have been brought into being in this manner. The normal process would be the voluntary amalgamation of smaller and uneconomic societies to form larger-sized societies. " In areas where local, group or personal interests come in the way of the process of reorganization of credit, which is found to be sociably desirable and necessary from an economic point of view, it may be necessary to compel unwilling societies to come into the scheme of reorganization by making suitable provision in law. It is for the co-operators themselves to prevent this legal compulsion by the exercise of the requisite breadth of vision and idealism."

(b) **Membership.**—Membership both in smaller and larger credit societies should be open to all persons—land-owners and tenants alike—deserving rural craftsmen and artisans residing in the area of their operation. Local or party or personal conside-rations will not be allowed to come in the way of extension of open membership. Steps are being taken to make suitable provision in law for appeal against refusal of admission. "In a socialist society which we intend to evolve rich and poor alike must live side by side and it is the duty of the rich and the well-to-do to promote the well-being of their poorer brethren."

(c) **State Participation.**—The main objective of the principle of State participation accepted as a method of reorganization of the co-operative credit structure is to overcome its fundamental finan-cial deficiency. It is obvious that every society—credit as well as marketing—needs a strong capital structure in order to enable it to play its part effectively in the country-wide programme for larger production. For this purpose as also to retire the share capital contributed by the State it is necessary for the Co-operatives to build up their share-capital by making compulsory collections, by promoting habits of thrift and by mobilising small savings of members. The Reserve Bank of India has sanctioned to the

Government of Andhra a long term loan of Rs. 10.67 lakhs for enabling it to contribute to the share capital of all the 84 larger-sized Societies. A sum of Rs. 2 lakhs representing State contribution to 16 societies was drawn and disbursed on the occasion of the inauguration of the Pilot Scheme in Visakhapatnam District, and the balance is being drawn for disbursal to the rest of the societies. Another sum of Rs. 6 lakhs has been sanctioned by the Reserve Bank of India towards contribution to the share capital of the three central co-operative banks in the Pilot areas at the rate of Rs. 2 lakhs to each.

(d) **Loan Programme.**—At the end of the first year it is proposed to ensure that the above 16 per cent of the total borrowings by cultivators in the area is handled by the larger credit societies. Particular emphasis is placed on crop loans. Co-operative societies make loans to tenants also against personal sureties. At present if such sureties are not available, they do not get loans. In the context of national planning for the larger production and the increasing tempo of the National Extension Service, a progressive change in the policy, procedure and technique governing issue of loans is called for.

(e) **Godowns.**—Under the Scheme larger-sized credit societies and marketing co-operatives will build godowns at all central villages and Mandi centres to provide the necessary storage facilities. They will assist the producer in storing agricultural produce and, when necessary, in holding it over for a better market by the issue of loans against produce for his immediate requirements. The programme for the first year includes the construction of six main godowns by marketing co-operatives and 24 auxiliary godowns by larger-sized societies in all costing about Rs. 16.55 lakhs, of which Rs. 12.64 lakhs will be made avalibale as State assistance by way of loans and grants and the balance will be borne by the societies themselves.

(B) **Marketing Societies.**—It is proposed to form seven strong broad-based marketing co-operatives by reorganizing existing societies through a process of amalgamation with stronger societies and liquidation of superfluous societies. The seven societies proposed to be started will cover all the Mandi centres in the Pilot areas. The proposed contribution to the share capital of these societies

is Rs. 2.03 lakhs of which Rs. 1.53 lakhs represents the share of the Government of India.

(b) **Processing Plants.**—It is proposed to set up under the Agricultural Marketing Scheme two cotton gins, one groundnut decorticator and one oil-mill.

(c) **Godowns.**—The objective is to ensure that every marketing society will have a godown of its own. The marketing societies will put up six godowns during the first year.

(d) **Financial Assistance.**—The financial outlay on contribution to share capital of marketing societies, loans and grants towards construction of godowns and installation of processing plants works out to Rs. 15.72 lakhs. The Government of India have sanctioned a sum of Rs. 10.74 lakhs representing their share of expenditure on these items.

(C) **An Experiment in a Larger-Sized Credit Society—the Almuru Rural Bank Ltd., East Godavari District**.—Past experience has everywhere demonstrated that "small agricultural credit societies of the Raiffeisen type have not satisfied the requisites of sound, healthy, elastic and dynamic credit system, and that the old Raiffeisen idea of limited area of operation and honorary service does not work well under Indian conditions where the poverty of the farmer and the small size of the society make it highly vulnerable to financial difficulty." It is against this background and in conjunction with the concept of normal banking that the establishment of rural banks in select centres in Andhra has been advocated. If a vigorous campaign for tapping rural savings is to be launched, it is only the strong and well-managed societies that can inspire confidence of the public, and tap and pool savings. A rural bank will operate over a compact group of villages on the basis of limited liability and housed in a decent building with broad-based membership and strong capital structure and a qualified paid secretary and a band of public-spirited and honest Directors drawn from all the villages in their area of operation—Directors who can inspire confidence and by their stature, integrity and influence secure local deposits, promote and pool savings, exercise watchfulness and control and direct development. A rural bank is expected to provide the following credit facilities:—

(a) Short-term and intermediate-term loan on personal security or mortgage of immoveable property.

(b) Loans on the pledge of agricultural produce, gold, jewels and approved securities.

(c) Cash credit loans to deserving select agriculturists up to carefully fixed individual credit limits on continuing mortgage bonds in order to avoid delays and to provide prompt credit.

Rural Banks may give loans against produce and may with suitable provision of godowns and in co-operation with a marketing society in that area be expected to link up seasonal production finance with co-operative marketing. It can, when necessary or feasible, organize and undertake the distribution of agricultural requisites like chemical fertilizers or standardised implements in local demand. There are subsidiary activities which may be taken up without undertaking trading risks (Vide pages 6 and 7 of the Report on the Working of Co-operative Societies in the State of Andhra for 1954). It was at Alamuru that the principle of a multi-purpose co-operative society was translated into action in 1938 by the late Shri Satyanarayana,—the well-known co-operator of Alamuru—by starting a rural bank. It included 13 villages in its area of operation. It was started with a membership of 95 in 1938 and within a period of ten years its membership rose to 3749. Its initial share capital was Rs. 475 only, but at the end of 1948 it accumulated a share capital of Rs. 59,771. It received deposits to the extent of Rs. 10.240 in 1938 and during a period of ten years the amount of deposits rose to Rs. 3,04,235. It has a Statutory Reserve Fund of Rs. 24,056. The maximum borrowing power was Rs. 6,70,616 as against which it had borrowed Rs. 5 lakhs. The net profits of the Bank for 1947-48 were Rs. 12,123, and the Bank has been paying a dividend of 6% all along on its share capital. Alamuru furnishes an example of a rightly started and well-conducted larger-sized co-operative institution.

2. **Activities of the Bank**:—The following paragraphs indicate the analysis of membership, loans advanced according to purposes and security , and other actitvities of the Society during

1941-48. The distribution of membership according to villages and occasion is given below :—

	Rs.
Alamuru	920
Chintaluru	186
Mandapeta	126
Navabupeta	167
Mulastanam	209
Jonnada	314
Penikeru	164
Thatapudi	267
Pedapalla	240
Kalvachela	28
Vedurumudi	212
West-Khandrika	451
Angara	465
Total Rs.	3749

It had on its rolls 1,684 Harijans and 535 Settibulgis. Distribution of membership according to occupation is as under :—

(1) Agriculturists ...	3302
(2) Non-agriculturists	309
(3) Mixed ...	138
Total	3749

Out of 3302 agriculturists there were 339 non-cultivating land-holders, 287 tenants and 2312 field labourers.

Separate societies for landless agricultural labourers started in the area were not functioning well, as they were not adequately financed. With a view to improving the lot of these landless labourers, the Rural Bank at Alamuru started admitting them to membership. The majority of members are landless Harijans. They have representation on the Board of Management and are granted loans according to their repaying capacity.

3. **Practice of Thrift** :—A distinguishing feature of the working of the Bank is the arrangement under which small savings of members are tapped. The Bank employs three Agents with cycles to collect the savings of members by meeting them personally in their own quarters daily both in the morning and in the evening. Each Harijan labourer earns about Rs. 1-8 to Rs. 2 per day for about a period of six to eight months. It has been possible to tap a part of the earnings of these people because of prohibition in the area. The following table indicates the progress made in the sale of thrift labels for a period of eight years, ending 1947-48 :—

			Rs. A. P.
	1940-41	...	3,192 - 0 - 0
	1941-42	...	5,224 - 0 - 0
	1942-43	...	8,500 - 0 - 0
	1943-44	...	6,969 - 14 - 0
	1944-45	...	7,232 - 2 - 0
	1945-46	...	5,936 - 2 - 0
	1946-47	...	7,498 - 4 - 0
	1947-48	...	32,411 - 10 - 0
(Upto 31-12-48)	1948-49	...	26,221 - 0 - 0

The amount collected varies from one anna to one rupee per day.

N. B. Later figures are not available.

4. **Loans** :—The Bank sanctions loans to all its members for various purposes. The amount of loan to be granted to a member is obviously dependent on the repaying capacity of each and the individual maximum borrowing limit is fixed at Rs. 2000. Landowners are given cash credit on the first mortgage of immoveable property on continuity mortgage bonds up to 50 per cent. of the value of the property mortgaged. Thus cash credits are mostly utilized for the purchase of seed, manure, cattle etc. The Bank itself has made arrangements for a cash credit from the financing bank against the security of mortgage bonds which are assigned in favour of the Bank. Tenants are also given loans against personal sureties for cultivation expenses. Credits are also granted against the pledge of standing crops up to 10 per cent. of their estimated value. Artisans and petty traders are also accommodated on production of personal sureties.

Landless labourers are given credits for purchase of rice, cloth etc. within the amount of their thrift deposits. Joint loans are also made for the joint purchase of foodstuffs, domestic requirements, cattle, manure and other agricultural improvements, if at least five persons join together in getting the loan and executing a bond. The maximum number fixed for a joint bond is Rs. 2000. Loans are also granted to the agriculturists on the pledge of produce in order to enable them to wait for a better market. Medium-term loans are granted for the purchase of machinery, water pumps, motor lorries, buses against tangible securities repayable within a period of 3 to 5 years. During 1947-48, loans given on different types of securities were as follows :—

	Rs.
(1) Crops and Produce.	9,107
(2) Pledge of valuables.	375
(3) Loans against mortgages.	2,20,133
(4) Loans against sureties, including Joint bonds.	1,72,848
(5) Fixed Deposits.	10,875
(6) Other Securities.	3,800

Loans granted for different purposes during the half year ending .31-12-43 are given below :—

Purposes		*Amounts*
(1) Domestic Purposes.	Rs.	34,009
(2) Cultivation expenses.	Rs.	32,188
(3) Redemption of petty debts.	Rs.	52,182
(4) Petty trade.	Rs.	84,276
(5) Construction and repairs to houses.	Rs.	34,620
(6) Purchase of land.	Rs.	34,620
(7) Medical aid	Rs.	620
(8) Purchase of cattle.	Rs.	5,235
(9) Purchase of tools.	Rs.	120
(10) Education.	Rs.	100
Total	Rs.	2,77,970

5. Non-Credit Activities of the Bank :—The main non-credit activities which the Bank is interested in promoting are :—

(1) Co-operative Farming.
(2) Rice Depot.
(3) Cloth Depot.
(4) Timber and Fuel Depot.

(1) **Co-operative Farming** :—An interesting experiment is being conducted by the Bank in joint or collective farming on a co-operative basis. In order to organize collective farming and to promote joint cultivation the Bank applied for and obtained Lanka lands in the middle of the River Godavari. Hitherto these lands were being leased out to the highest bidder by the Government, and generally the rich ryots secured them in the auction sales and employed landless labourers as coolies to work on these lands for agricultural operations. Owing to silting brought about by high floods every year, these lands are very fertile and yield good commercial crops like cotton, tobacco and chillies. There are good pasture lands also in the Lankas which are used by the ryots for the grazing of their cattle. The agricultural labourers cultivate the lands and tend the cattle for the benefit of their employers—the leaseholders. In order to free these labourers from the clutches of the middlemen and to improve their social and economic lot the Bank secured 500 acres of Lanka lands from the Government in the three villages of Thatapudi, Jonnad and Mulastanam at a fixed rental of Rs. 10,000 per annum. Harijans in these three villages are financed by the Bank for raising seasonal crops on the Lanka lands and loans are granted on joint responsibility for the purchase of seed, cattle, implements and for payment of Government assessment. The lands are divided into 50 plots consisting of ten acres each. Ten families are jointly to cultivate in each block and the Bank Supervisor supervises their work. Each group elects a head who is directly responsible to the Bank. The heads of the group will organize work for the other members. Not only commercial crops but also foodcrops such as pumpkins, water-melons, cucumber, onions are grown and enjoyed by the labourers and the surplus only is sold. The income of the commercial crops grown on the

Lanka lands is sufficient to pay off the Government rental and the advances made by the Bank. As the labourers are good at rearing and tending cattle, they maintain good cows, as there is plenty of pasture land. By linking up land, labour and capital through the co-operative agency it has been possible to bring about agricultural production and give employment to landless Harijans. The Bank has been financing production to the extent of Rs. 25000/- every year, which is repaid out of the sale proceeds of the crops grown. The scheme has been reported to be responsible for the all-round improvement in the condition of the labourers. They are better fed, better clothed and better housed. The Bank has also been financing the purchase of cattle every year to the extent of Rs. 25000/-. After the season is over, the cattle are sold away and advances repaid out of sale proceeds. Most of the labourers are owners of cattle now and the caste ryots are seeking their help for ploughing their lands with their cattle. Labourers are not only earning money by lending their cattle but their status is also improved, as they are now co-workers instead of being labourers as in the past. The spirit of co-operation is also growing among them, as a result of which corporate life has begun to develop. In Thatapudi a Ram-Mandiram (Rama's temple) was constructed at a cost of Rs. 2000/-. Labour was contributed free and the housing materials were purchased out of their savings. After their daily work is over, the labourers assemble in their Mandirs (temples) and settle their personal account and resolve their communal disputes. On festive occasions they conduct Bhajans and Kirtans in the Temple. Folk dances and ballot singing are also arranged. Thus they have become centres of recreation and adult education.

(2) **Rice Depot** :—The agricultural labourers are paid wages is cash in this area. They have work only for about nine months in a year. For the remaining three months they have to depend upon loans from the landholders. They take paddy from them on the condition that they would serve them in the transplanting and harvesting season at lower wages. Thus they undersell themselves to meet the cost of their maintenance during the slack season. Because of their dependence for their supplies during the slack season when they have no work they are required to

work all the year round as bond-slaves to their masters. With a view to afford relief to them from this situation, the Bank undertook a scheme of financing and supplying food-grains to these agricultural labourers during the slack season. All the earning members of the family are admitted to membership of the Bank and advanced loans for the purchase of food-grains sufficient to meet the family demand for two to three months. These advances are repaid from out of their savings when they begin to work. After the introduction of rationing the grain depot had to be closed, and the work was transferred to the local Co-operative Store. The landless labourers are also exploited by local sowkars and merchants in the matter of supply of cloth, as they are not in a position to pay the full value of cloth at one time. Cloth is supplied to them on credit on the condition that they pay the dealer the amount at the end of the year. Hawkers from Nellore also carry on this trade. The methods of recovery which they follow are harsh and cruel. In order to stop this usury the Bank opened a cloth depot also for supplying cloth to landless labourers who receive cloth on credit twice in a year during Pongal and Dasara festivals. Advances are repaid out of sales of thrift labels. The Bank also conducts a timber and a fuel depot as the agent of the poverty relief service, Parantapalli. Rs. 20,000 worth of teak-wood, bamboos and other housing materials were kept in the depot for sale. Half a dozen cabinet-makers have come to stay in the village and have opened workshops to prepare ready-made housing materials such as doors, window-beams etc. and the timber is supplied from the depot. The workers are given loans to purchase the necessary materials in the market. Tables, chairs, almirahs, and other household furniture are prepared by these workers who have developed a cottage industry on a small scale with financial assistance made available by the Bank. Similarly, financial assistance was also given to the brick-makers in order to help the local brick industry.

IV. The Pilot Scheme in Bombay.

1. Selection of Area.—Three districts representing the three linguistic divisions of the State—Dharwar, East Khandesh and Broach—were selected in order to put into effect the integrated

scheme of rural credit recommended by the Credit Survey Committee on a pilot basis. The points that were taken into consideration in the selection of these areas of launching the pilot projects are :—

(a) The existence of a steady and progressive-minded central financing agency in the area.

(b) A tract liable to periodical scarcity conditions at least in a part of the district.

(c) A part of the area should be a backward area.

(d) The area should be one in which the community development projects and national extension service are working.

In the areas selected for the implementation of the Pilot Schemes almost all the villages are covered by co-operative societies. The coverage of population is, however, 45 per cent in Dharwar, 47 per cent. in East Khandesh and 33 per cent. in Broach. During the Second Five-year plan period it is proposed to cover 100% of the rural population in Dharwar and East Khandesh Districts, and 75% in the case of Broach District. The details relating to the pilot projects as worked out are given in the following paragraphs.

(1) **Formation of Larger-sized Primary Credit Societies.** In the conditions prevailing in the Bombay State the building up of a strong rural credit structure at the base involves the transformation of the existing structure rather than organization of new societies. It is, therefore, decided to form larger-sized credit societies by the amalgamation of the smaller and weaker units. The targets provide for the establishment of larger-sized societies by reducing the total number of the existing societies as shown below.

District	Details.	Position. 1954-55	Position. 1960-61
(1) Dharwar :	(a) No. of Primary Credit Societies.	763	510
	(b) No. of Larger-sized Multi-purpose Societies.	10	178

District.	Details.	Position. 1945-55	Position. 1960-61
(2) East Khandesh :			
	(a) Primary Societies.	850	600
	(b) Larger-sized Multi-purpose societies.	15	135
(3) Broach :			
	(a) Primary Societies.	287	200
	(b) Larger-sized Multi-purpose societies.	—	120

On the basis of targets and coverage of cultivators mentioned earlier, the following table indicates the position of members of primary agricultural credit and multi-purpose societies.

Districts.	Present Membership.	Position in 1960-61
(1) Dharwar	0.72 lakhs	1.61 lakhs
(2) East Khandesh	0.70 lakhs	1.40 lakhs
(3) Broach.	0.23 lakhs	0.51 lakhs

(2) **Extent of Finance Required.** At present the average amount of loan per member stands at Rs. 170, Rs. 243 and Rs. 300 respectively in the Dharwar, East Khandesh and Broach Districts. In order to provide finance on a more liberal scale the average loan per member is expected to rise to Rs. 250, Rs. 420 and Rs. 450 respectively. These loans will be for raising crops and the security will be the crop grown and the personal security of the borrower rather than landed security. To enable the various credit organizations to meet the requirements of finance in respect of their members, it is proposed to extend financial assistance as under :—

(a) **Larger-sized Primary Multi-purpose Societies.** Contribution to the share capital of the larger-sized multi-purpose societies at Rs. 10,000 per society is proposed to be given to such of the societies as are likely to need it and the estimated requirements on account of the Government's participation in the share capital of such societies has been worked out at Rs. 31.60 lakhs

for a period of five years. Besides, the grant of loans subsidies to the larger-sized multi-purpose societies for the construction of godowns at Rs. 10,000 for each godown, of which Rs. 7,500 would be treated as loan and Rs. 2500 as subsidy, have also been provided for. During the period of the Plan it is proposed to put up 303 godowns, 75 in Broach, 90 in East Khandesh and 138 in Dhwar at a total cost of Rs. 30.30 lakhs. Further, a total provision of Rs. 4,75,200/- has been made towards granting subsidies for meeting managerial expenses at Rs. 600 per society per year for a period of three years.

(b) **Central Financing Agencies :**

(i) **Dharwar Area.**

Items.	Resources available 1954-55	Expansion of resources 1960-61
	Rs.	Rs.
(1) Owned funds (in lakhs)	28.53	39.16
(2) Net deposit available after providing for fluid resources.	112.00	126.00
(3) Total internal resources available.	140.50	165.16
(4) Internal resources of Primary Societies available (in lakhs)	—	75.00
(5) Total internal resources.	—	240.16
(6) Total requirements of finance.	—	595.00
(7) Net outside finance required.	—	354.84

(ii) **East Khandesh Area.**

Items.	Resources available 1954-55	Expansion of resources 1960-61
	Rs.	Rs.
(1) Owned funds (in lakhs)	38.00	86.25
(2) Net deposits after deducting fluid reresources.	148.40	199.50
Total internal resources available.	186.40	285.57

Items.	Resources available 1954-55	Exapnsion of resources 1960-61
(3) Internal resources of Primary Societies.	—	75.00
(4) Total requirements of finance.	—	610.30
(5) Net external assistance needed.	—	249.55
(iii) **Broach Area.**		
(1) Owned Funds (in lakhs)	18.00	36.52
(2) Net Deposits.	71.19	72.60
Total internal resources available.	89.19	109.12
(3) Internal resources of Primary Societies.	—	50.00
(4) Total requirements of finance.	—	204.00
(5) Net external assistance required.	—	44.88

A sum of Rs. 66,000 will be required as subsidy to meet the cost of running 85 uneconomic branches or pay offices of central financing agencies by 1960-61.

(2) **Marketing Societies.**—At the end of 1954-55 there were 15 marketing co-operatives in Dharwar District, 33 in East Khandesh District and 16 in Broach District. The marketing co-operatives in Dharwar handle cotton, groundnut and chillies, the principal crop being cotton. In Broach the only commodity dealt in is cotton. In East Khandesh District also, the principal crop is cotton, but there are also a number of co-operatives handling fruits like bananas, citrus fruits etc. For all practical purposes they are single-commodity societies, but it is envisaged that they would also deal in other crops as well grown in their area of jurisdiction. The proportion of produce marketed, it may be noted, varies from commodity to commodity and from society to society. It may be stated in general that on the whole, in Dharwar and East Khandesh Districts co-operatives handles about 8 per cent of the produce that arrived in the market, while in Broach the percentage was 10. The target for the proportion of produce to be handled by 1960-61 is fixed at 30 per cent of the total arrivals in the market.

(i) **Godowns.**—The programme for building godowns is that each marketing centre should have, by 1960-61, a large or a medium-sized godown costing about Rs. 40,000 or Rs. 20,000 respectively. At present there are nine godowns in the Dharwar District. The provision for godowns in the three areas as proposed is as follows:-

District.	No. of Godowns. Larger size :	Total Medium size	Cost Rs. (in lakhs)
(1) Dharwar.	8	10	5.20
(2) East Khandesh.	5	20	6.00
(3) Broach.	4	20	5.60
Total No.	17	50	16.80

(ii) Financial Assistance to Marketing Co-operatives is proposed to be given as under:-

(a) Contribution to share capital. Rs. 25,000/- has been taken as an average for each marketing society on the basis of 50% of the total share capital of Rs. 50,000 required for each society. But in deserving cases contribution may be permitted even in excess of this proportion in order to bring the total share capital to the requisite level. An amount of Rs. 16.05 lakhs has been proposed to be utilized on this account in the three areas during five years of this scheme.

(b) Grant of loans and subsidies for the construction of godowns. This has already been dealt with above.

(c) Grant of subsidies towards managerial cost at Rs. 1000 per year for three years, the total amount provided on this account being Rs. 2.07 lakhs.*

(3) **Regulated Markets.** An amount of Rs. 6.30 lakhs would be advanced as loans to Market Committees for the purpose of acquiring sites for the market yards etc. It is proposed to regulate

* Out of the three Pilot Areas, Dharwar District is now merged with the Mysor State and to this extent, the figures mentioned should be modified.

all the major and minor markets in the three areas by the end of 1960-61.

(4) **Organization of Processing Societies.** A large number of commercial crops have to be processed before they are marketed, and their market value increases considerably once they are processed. Processing on co-operative lines is, therefore a natural corollary to the development of co-operative marketing of agricultural produce. Co-operative processing, therefore, marks an important stage in the development and reorganization of rural credit, as the agriculturist is enabled thereby to pocket profit that otherwise goes to the middlemen, and thus processing helps in the betterment of the economic position of the agriculturist by enhancing the value of his produce before sale. During the period of the Second Five-Year Plan it is proposed to undertake the processing of a number of commodities like cotton, paddy, groundnut, chillies and isabgul. The block capital required for processing societies is fairly large and the types of processing societies proposed to be started in the three districts are as follows:—

	Dharwar	East Khandesh	Broach
(1) Cotton Ginning and Pressing	4	5	6
(2) Fruit Canning.	1	—	—
(3) Oil Mills.	2	—	—
(4) Chilly-pressing.	1	—	—

The processing societies will be given financial assistance in the form of contribution to share capital and grant-in-aid by the Government to meet their requirements of block capital and managerial cost. The provision made during the period of the Plan on account of Government contribution to the share capital is of the order of Rs.18.50 lakhs, while that for managerial cost is estimated at Rs.1.74 lakhs, at the rate of Rs.100 per year per society for five years.

CHAPTER VII

Different Types of Co-operative Societies

In this and the subsequent chapters it is proposed to deal with the working of different types of co-operative institutions in the Indian Union. A feature of the co-operative movement in India lies in its uneven development from State to State. The movement is relatively well-developed in a few States like Bombay and Madras because of certain favourable factors, while in some others it has made progress only after the World War II, and yet in others, though the process of rehabilitation is going on, the position is difficult and uncertain and it has not been possible so far to resurrect the movement. Thus the States in the Indian Union may be grouped into four broad categories from the point of view of development of the co-operative movement. The first group would consist of Madras, Andhra and Bombay, while the second covers a large number of States including many Part A and some of the Part B States, e.g., U. P., Madhya Pradesh, Bihar, Orissa, Mysore, Travancore-Cochin and Hyderabad. The border states of Assam and Punjab and West Bengal form the third category. In the fourth group could be placed several of the newly found Part B and Part C States, e.g., Saurashtra, Madhya Bharat, Rajasthan, Pepsu, Himachal Pradesh, Tripura, Manipur and Cutch. In the last three States the co-operative movement practically does not exist. The broad divisions which have been referred to are not sacrosanct as there has been further reorganization of States towards the end of 1956. Still, however, the story of co-operative progress and development would follow these broad lines of divisions indicated.

2. **Different Phases of the Co-operative Movement.** As has already been indicated in a previous chapter, the time that has elapsed between inauguration of the co-operative movement under Act X of 1904 and today–a period of more than half a century–can be divided for the purpose of studying the general course of development and progress into four well-designed periods. The period between 1904 and the publication of the MacLagan Committee's

Report in 1915 may be be taken as the exploratory or the formative period. With further development of the movement, following the recommendations of the Committee and with co-operation becoming a Transferred Subject under the provincial Ministers after the Montagu-Chelmsford Reforms, further impetus was given to the movement and the period between 1915 to 1929 may be characterised as a period of unplanned expansion, as during this period considerable expansion took place in all directions in most of the States. Then followed from 1929-30 acute economic depression in India by the catastrophic fall in the prices of agricultural products and of agricultural land. The co-operative movement received a rude shock and even collapsed in a few States and programmes of rectification or rehabilitation and reconstruction were undertaken in almost all provinces. This was followed by a spurt in prices during the Second World War and after, when the trends were reversed. The period from 1929-39 to 1945-46 may be called the period of setback and reorganization and recovery. The last period after Independence called the 'Post-Independence period' of about a decade from 1947 and onwards is a period packed with events of great social and economic significance, having a bearing on the development of the co-operative movement. This is a period which synchronizes with economic planning in the country.

I. Agricultural Production.

(A) Primary Agricultural Credit Societies.

Importance and Characteristics of Agricultural Production. The Businessmen's Committee of Agriculture in the U. S. A. mentions the peculiar features of agricultural production in the following words:—

"Agriculture is not merely a way of making money by raising crops; it is not merely an industry or business; it is essentially a public function or service performed by private individuals for the care and use of the land in the national interests, and farmers in the course of their pursuit of a living and a private profit are the custodians of the bases of National Life. Agriculture, is therefore, affected with a clear and unquestionable public interest

and its status is a matter of national concern, calling for deliberate and far-sighted national policies not only to conserve the national and human resources involved in it but to provide for the national security and to secure social and political stability."

In view of the peculiar characteristics of agricultural production, coupled with the special features of agricultural credit referred to in an earlier chapter, credit for agriculture has come to be regarded and treated as problem requiring special organization of its own and co-operative credit has also been regarded all the world over as the ideal agency for financing agriculture. The unique role of the co-operatives in the supply of credit to agriculture was voiced in a special resolution of the World Economic Conference held by the League of Nations at Geneva in 1927 in the following words:—

"The increase of agricultural production is intimately bound up with organization of agricultural credit, which will place at the disposal of the agriculturist the necessary capital on favourable terms. The further condition for surmounting those difficulties (of making adequate provision for agricultural credit) is the organization of credit institutions in those countries where they do not yet exist; and their development, where they are already in existence. The best form of institution appears to be the co-operative credit society operating by means of resources, which the very fact of association enables it to procure and to increase with or without the assistance of the public authorities."

The reasons why co-operatives are regarded as the best or the ideal agency for the provision of credit to agriculture are not far to seek. In the words of Sir Frederick Nicholson, they are "proximity, security, facility and safety." These have already been elaborated in a previous chapter, so as to obviate further reiteration here. The organization for the supply of agricultural finance motivated the co-operative movement in India. Owing to the predominantly agricultural character of the country, it is but natural that agricultural societies far outnumber other types of non-agricultural societies. Even among the agricultural societies, credit societies form the major sector of the co-operative economy in the country. After the passing of the First Co-operative Societies

Act of 1904, Registrars invested with wide powers were appointed in all the Provinces and they set out to work the Act in right earnest and societies began to make their appearance almost everywhere in 1905 except in Uttar Pradesh where, through the efforts of the district officers, some 158 societies had already been established on the basis of caste as the cementing force among the members but later switched over to 'one village, one society' principle. The primary agricultural credit society is the foundation of the co-operative banking structure and is usually formed in its first stage by a number of individuals not less than ten under the Act, because they are unable individually to obtain the credit necessary, for their small agricultural operations, either in adequate quantity or at a reasonable rate of interest or on terms of honest dealings so as to enable them to work at a profit. To effect this they combine together to form the society and each becomes liable for the debts of the society to the extent of the whole of his assets. If in this combination there are a number of well-to-do persons who have joined it with a view to assisting their poorer brethren and not to obtain credit facilities, they bring to the total assets of the members a further additional strength providing substantial security to a creditor who lends money to the society which is used by less advantaged members. In short, the members create credit by pledging the unlimited liability of each one of them for the debts of the society. On the strength of this credit they raise their resources in the form of deposits of members or non-members who are local sympathisers or from a central bank at the district headquarters when one is formed. They also raise their capital in the form of shares and entrance fees. In the initial stages the Local Government also helped the society with loan free of interest for some time equivalent in amount to the amount of deposits raised from members. The money which they obtain is lent out to the members on the security of one or more personal sureties or on the mortgage of immoveable property. The rates of lending and borrowing money varied in several provinces according to circumstances. The supreme authority of the society lies with the General Assembly of members, but the ordinary day-to-day business is entrusted to a Managing Committee or Panchayatdars who are elected annually by the General Body of members. They work in an honorary capacity. The society is normally affiliated

to a central bank or a banking union in which it takes one or more shares, and it is also affiliated to a local Supervising Union which is a body called into being to supervise the affairs of the affiliated societies. The profits of the society normally depend upon the margin between the borrowing and lending rates and all profits earned were credited to an indivisible reserve fund under the provisions of the first Act of 1904 , but later under the Imperial Act II of 1912, 25 per cent of the net profits must go to the reserve fund. Out of the remainder a small dividend on shares may be paid if and when permitted under the provisions of the Provincial Act, and a small percentage may also be set apart for charitable purposes or for a common good fund. All the undistributed profits are appropriated to the statutory reserve fund. The reserve fund is either allowed to be invested in the business of the society or invested in the shares of a central bank to which it is affiliated or kept as a long-term fixed deposit with the latter with a view partly to ensure the stability of the society and partly to strengthen the position of the financing bank on the stability of which the whole structure of the co-operative credit movement in the village depends. A moderate amount of deposit or share amount depending on the number of ploughs a man owns or on the number of acres he cultivates or owns is collected from each member in order to provide the society with its own capital and thereby increase its strength. Deposits are collected as they indicate the inculcation of thrift among the members so as to teach them that co-operative credit primarily aims at saving, and secondarily at giving credit. It is common to find that as a matter of fact, men of substance do not join these societies so as to augment the credit of poorer members, and most of the societies are as a result associations of weak individuals having no substantial tangible assets. Even then the total assets of the members of such associations total up to a substantial saleable value and are considerably in excess of the total loans granted. It is, however, quite probable that in the event of forced sale of a number or all of these assets, the amounts realized might be very much less than what had been valued at the time of the grant of the loan, with the result that in many cases they might fall short of the debts of the society especially if such forced sales are taking place in a small area. Thus it is clear that creditor's real security lies not in the

tangible security of the members but in their ability and desire to make productive use of credit facilities granted and repay credit out of its utilization. Each loan, therefore, implies or should mean such earning capacity for the individual member. The real security lies in the use of each loan for a genuine productive purpose, the honesty and thrift of members, the watchfulness which the members exercise for each other's dealings, the moral influence which they bring to bear upon dishonest members or unthrifty co-members and the feeling of solidarity which is usually awakened by association for a common purpose. These are the essential elements of co-operation in a perfected form which have never been fully realized in actual practice because in the socio-economic structure of the Indian village it is the combination of the weak against the strong in conditions in which they had no chance to succeed.

2. **Conditions necessary to make a Society Co-operative.** The two qualifications which the MacLagan Committee prescribed for a primary agricultural credit society are that it should be co-operative and businesslike. In the formation of a society they wrote : " The first essential is the careful selection as members of honest men or at any rate of men who have given satisfactory guarantee of their intention to lead an honest life in future and every member should have a knowledge of the principles of co-operation. " As regards the dealings of the society, the Committee recommended that it should lend to members only and that loans must in no case be for speculative purposes but only for productive purposes or for necessaries, which as essentials of daily life could be classed as productive. In the opinion of the Committee, the borrowers should be required to satisfy their fellows that they are in a position to repay the loans from the income, that they will derive from the increased productive capacity, or by the exercise of thrift they can effect a margin of income over expenditure which will suffice to meet the instalments of loans as they fall due. When a loan is granted, it is necessary that the committee of the society and the other members should exercise a vigilant watch that the money is expended for the purpose for which the loan was granted. The society is also expected to be businesslike in its dealings with the members according to the prescription of the Committee. When

a loan is improperly applied, it should be at once recalled and in the event of any default by the borrower, an instant demand should be made on the sureties who are to see to the proper use of the loan. In the more general matters of the society's business there should be a Committee of Management with a President and Secretary, who should be members of the society, and should give to it gratuitous service except those who perform purely clerical duties. But at the same time the ultimate authority should be retained in the hands of members who must continue to take a practical interest in the business of the society. With this object in view, the Committee recommended that the constitution should be republican. Each member should have one vote and no more in the General Meeting, and all business should be transacted with the maximum of publicity within the society, e.g., there should be kept in one place open to the inspection of every member, a list showing the loans issued to every member, the names of the sureties, the amount of the loan still unpaid and each member should be required to know generally how its account stands. General Meetings should be frequently held in which the accounts and affairs of the society are fully discussed and explained. In the opinion of the Committee the express object of the society should be the development of thrift among its members and to effect this object loans must be given only when they are really necessary. Further, the development of thrift should be aided by efforts to build up as soon as possible a strong reserve fund from profits. The Committee finally sums up by saying that with all these must go the elementary business principles of honesty, punctuality, proper accounts, diligence and payment when due. To ensure all this there must be adequate control from within, increasing vigilance and supervision by the office-bearers and a continuous effort by members in learning the principles of co-operation, in meeting frequently, in watching others, observing thrift and in particular, repayment of their own loans as they fall due. The MacLagan Committee rightly made the Registrar responsible for seeing that the societies were organized on sound lines and before registration, to see to it that the proposed society had fair chances of succeess. In order to ensure the establishment of a society on sound basis greater emphasis was also placed on the education of members in the principles of co-operation which

were at the time called the Ten Main Points of Co-operation, which are listed below :—

(1) The object of the society is to encourage people to lay by savings, to grant loans at reasonable rates of interest and to get rid of debt.

(2) Members must know each other thoroughly and must admit to membership no one who is not acquainted with the rest or about whose character they do not know and whom they do not trust.

(3) All members are jointly and ultimately liable for all sums borrowed by the society either from depositors or from outside sources. They are, therefore, all interested in seeing that loans are granted prudently and that no member is permitted to default.

(4) It is the business of the Managing Committee to raise capital, to sanction loans to members, to watch over their recovery and to see that the accounts are properly kept.

(5) All loans must be used only for the purposes for which they are granted. They may be issued for one year for current agricultural expenses, for two or three years for the purchase of cattle or implements or for domestic purposes and for five years for the repayment of old debts or for land improvement.

(6) All repayments must be made on the due dates fixed by the Managing Committee and in cash and not by book adjustment.

(7) The duties of the General Meeting of the Society are to appoint a Managing Committee and a Secretary annually to consider the balance-sheet and the audit note, to ask the Committee questions about its work and to pass orders on any faults that come to light.

(8) All profits are carried to the reserve fund, the object of which is to improve the credit of the society as a whole, and to protect members from the enforcement of the unlimited liability. It is the property of all the members jointly.

(9) Capital is obtained as deposits from members or other persons in the neighbourhood, or as loan from a central bank.

The central bank is controlled by the shareholders and if societies buy shares in it, they will have a voice in its control.

(10) It should always be remembered that though the Registrar audits and warns, the members are themselves responsible for the working of the societies. Government is not going to manage societies for them. If they want them to be sound, they must see to things themselves.

It was explained that these principles should be clearly grasped and understood by the members of a village credit society both before and after its establishment and officials were enjoined as a part of their duties to inculcate these principles among members when they paid a visit to a society. In order to keep these principles constantly before their eyes, the Ten Main points of Co-operation were translated in vernacular languages and printed on the inside of the cover-pages of a pass book granted to each member showing his transactions with the society. Most of the societies started in the Indian rural conditions conformed to the pattern invented in 1850 by Raiffeisen, who was a burgomaster in Germany. The distinctive features of such a model are :—

(1) The society is absolutely local, the limits of a village being the limits of membership and operation. Members must know each other personally and admit no one whom they do not trust.

(2) The administration is also local, members only being eligible for appointment and service on the Committee is gratuitous.

(3) Capital is raised by small entrance fees and by loans and deposits at interest secured on the unlimited liability of all the members, and on the reserve fund.

(4) All profits are carried to a reserve fund which is indivisible.

(5) Loans are made only to members who must be residents in the village and are always given for some definite object. They are also granted for definite periods which are determined by the objects for which they are advanced.

3. **Advantages of a Raffeisen Model.** The Raiffeisen pattern of a village society was considered to be the only suitable one that could be adapted to Indian rural conditions as it offered certain advantages having distinctive features of its own.

(a) **Restricted Area of Operation.** The general rule that was followed is one society to one village and one village to one society. Sometimes there was a departure from this rule, as the term village does not mean the same thing in all the provinces. In the famous resolution issued by the Government of India in 1914, reviewing the position of the co-operative movement, the Government stated : " It is possible to have more societies than one in a single village in cases where a village is so large that all the residents are not mutually acquainted with each other or where a village is so divided from any cause that one set of residents could not be expected to be jointly responsible for another. But the essential principle remains that societies should ordinarily consist of members so closely in touch with one another that they are willing to be and can be both in name and in fact jointly responsible. The reasons for this are not far to seek. The essential part of a co-operative society with unlimited liability is that members must know each other and should be able to keep a constant watch over one another's behaviour if they are to be held liable for the debts of the society to the extent of the whole of their property. It is not likely that the people of one village will have the necessary intimate knowledge of people living in another.

(b) **Size of Societies.** For the same reason the size of the rural primary society was also to be subject to a limit. The MacLagan Committee stressed the importance of small beginnings and laid emphasis on the small size of societies. The members of a society, the Committee added, should be a few to start with and increases should be gradual and the ultimate total moderate. The main advantage claimed for large societies is economy of management, but this consideration scarcely affects rural societies, according to the opinion of the Committee. On the other hand, small societies are more easily supervised and trained in co-operative principles just as small classes are more easily taught in schools. If a society is small it affords better opening for

local talent. It brings more men to the front, trains them to undertake responsibilities and by carrying on business not exceeding the capacity of the Committee prevents the domination of one man. Societies should in the opinion of the Committee, be small at the commencement not only where the members are poor and backward but in all cases. Where a sound beginning has once been made, gradual increases should be allowed, care being taken that men of the best character are admitted first and that subsequent admission is treated as a favour to be earned by the candidate rather than as a benefit conferred by him on the society. The Committee found that the average membership of an agricultural society in India was 41, the figures for different provinces being as under :—

Bombay	...	69
Madras	...	62
Bengal	...	46
Bihar and Orissa	...	48
U. P.	...	39
Punjab	...	47
Central Provinces	...	16
Assam	...	51
Coorg	...	91
Burma	...	24
Ajmer	...	29
Average	...	41

In this context the Committee wrote : " We have some hesitation in suggesting a definite numerical maximum but, as a rule, we think that a society is apt to become unmanageable if its members exceed the limit that might vary from 50 to 100, but it will be found in practice that they depend for their existence on the efforts of the President or a small Committee and that the ordinary member takes little interest and has practically no voice in the management or affairs of his society. The co-operative safeguards are, therefore, absent and everything depends upon the honesty and business qualities of the Committee. We have noticed, moreover, that it

is from societies of this nature that the majority of complaints have come that members who are perfectly well able to repay are contumaciously refusing to do so. This is to be expected when there is an absence of the co-operative elements of mutual watchfulness and of the exercise of moral pressure. It is impossible to avoid the conclusion that large societies of this nature must inevitably lose their co-operative character and degenerate into village money-lending concerns. Many societies have lost their dignity and have become inefficient from the fact that they have allowed their membership to become unwieldy."

(c) **Selection of members** :—In selecting the members for admission to a society the chief consideration, in the opinion of the Maclagan Committee, should be the character of the man selected. Members should be admitted for their moral qualities, viz., honesty and sobriety, and they need not necessarily be propertied persons, though it is desirable that some persons possessing property should be included in the society. A man should not be refused admission simply because he is poor. If he is known to be a hard-working and an honest man, he will, under no circumstances, deceive the society and his fellowmen and will repay the loan granted to him for his domestic or agricultural needs. The real security behind the loan is the character and honest dealings of the borrower and not the possession of property or wealth, because a co-operative society, according to theory, gives concrete expression to the democratization of credit and weaker individuals, in virtue of their association with their fellows, are enabled to obtain credit which is available otherwise to wealthy individuals only. All the members must be residents of the village but those resident outside the village but having property in the village should not be eligible for membership, since the bond of unity among the members is mutual acquaintance based on proximity of residence. It is possible that richer men may be willing to join a society and to keep deposits with it and for that purpose and for keeping an eye also on management they may be willing to become members. In the selection of a member, his occupation is more important and should be given due importance. Though all the members of a village community are eligible to become members it has been the experience that inclusion of men with a diversity of occupations

does not work well in practice owing to lack of common interest. Membership of two societies having unlimited liability is prohibited under the law and no society should admit as a member a man who is already a member of another society with unlimited liability.

(d) **Form of Liability.** Barring a few isolated cases, most of the primary agricultural societies in India were formed on the basis of unlimited liability. The MacLagan Committee, writing in this context, observed : " The law does not specify definitely the character of the liability nor have we any data before us to show the interpretation put upon it by courts. No difficulties have hitherto arisen in connection with the enforcement of this liability but should it hereafter be found necessary to define it more clearly, we would suggest that it should take the form of contributory unlimited liability. That is to say, that when there is a deficit in the engagements of a society to its creditors, this deficit should after the full payment of shares, if any, be recoverable by a series of per capita levies upon the members upto the full extent of their property, direct proceedings by a creditor against individual members being forbidden. Hitherto it has been generally understood that the unlimited liability of a society is intended to imply the liability of the whole of the property of each member of a society for the debts due by other members to it, but the practical difference between the two aspects of the liability is perhaps less than might at first sight appear, and in any case the members of the societies when they think of the liability at all appear ordinarily to think of it merely as unlimited and to accept it willingly as such. We have not found that the adoption of this form of liability, where the safeguards against loss are properly understood, has any effect in keeping out the richer peasants, nor have we met with any demand for the substitution of a limited responsibility. The unlimiteed liability is not understood to involve any obligation against the alienation of property by members and although the material basis for the liability is thus rendered somewhat fluctuating and indefinite, we do not consider that an arrangement which would in effect impose a definite charge on all their existing property would be either practicable or desirable. The unlimited form of liability, as it now stands has, contrary to the anticipations of many, been unreservedly accepted by the people, and we have

evidence before us to show that it constitutes an important factor in the confidence reposed in societies both by the central institutions inside the movement, and by the Joint-Stock Banks outside it. We see every reason therefore, for adhering to the principle that agricultural credit societies should be societies of unlimited liability, whether they are with or without shares. In either case the ultimate liability of all the members is in the last resort unlimited and the advantage of share capital is that, if in case of liquidation the share capital is sufficient to meet any deficit that may be found to exist, there is no need of any further levy to meet the liabilities of the society."

It will be seen from what is stated above that the MacLagan Committee was not clear in its mind at what stage unlimited liability could be enforced against the members. In a full bench case the Patna High Court gave a ruling in 1931 to the effect that unlimited liability was a contributory liability enforceable against members individually only during winding-up proceedings of a society and not when it was in existence. The liability of a member is joint and several. The liabilities of the society to its creditors would in the first instance be payable out of the sociey in its corporate capacity as distinguished from the assets of its individual members. It is only when the assets of the society prove insufficient, that the question of personal liability comes in, but it may be noted that even then the creditors cannot sue the members in their individual capacity. When the society goes into liquidation, it is the liquidator who makes a series of per capita levies upon members to make good the deficiency in the assets of the society to meet the liabilities of the creditors. If some of the members are unable to make the requisite contributicn, the liquidator would then proceed to recover the balance from the remaining members. It should be remembered that when the society is in existence, unlimited liability is no bar to the alienation of property by its members in favour their own private creditors or otherwise.

Unlimited liability is best suited to a poor community of people like the agriculturists in India, as it carries certain advantages with it. In the first place, it is the only form of security on which working capital can be raised. Secondly it creates confidence among

outside creditors and secures circumspection on the part of the management in the lending out of the society's monies to borrowers. Thirdly it ensures that the monies lent are utilized for the purpose for which they are granted. Fourthy, it has an educative and moral value and reinforces the basic principle of " each for all and all for each", and lastly, it fosters mutual trust, mutual watchfulness and moral control over each other's dealings among members in the society. To counteract against the risks implicit in unlimited liability, there are certain safeguards provided in the Raiffeisan type of a society in that the loans are put to productive purposes and are granted by insistence on personal sureties and punctual repayment. The management has the power to supervise the use to which the loans are put and to call in if the money is misapplied. Finally the building up of the indivisible reserve fund, in the event of dissolution of the society, adds financial strength to it and acts as a bulwark against unlimited liability.

(e) **Composition of Capital.** The funds of a village credit society are raised by means of entrance fees, shares, deposits and loans from central banks. Entrance fees were collected in all provinces except U. P. to meet the preliminary expenses of organization. Although a society is formed on an unlimited liability principle, it has been found necessary to collect share capital because firstly no interest is paid on it at a fixed rate unlike in the case of the deposit and it thus enables the society to lend the monies at a profit. When profits are made, they go to swell the reserve fund which acts as a safeguard against the dangers of unlimited liability. In the second place, members who have put in their money in the society in the form of shares feel a stronger attachment to it and try to run it properly, as they hold the stakes in it. Share money is also an indication of the thrift exercised by members and it offers also as a security to outside borrowings. For all these reasons societies are encouraged to collect small amounts of share capital from their members and each member is required regularly to contribute to the share capital of the society. This is of course a departure from the principles underlying the Raiffeisen society which encourages no share capital. An important modification was made in some of the provinces in the purely Raiffeisen pattern and the share system was adopted from the very beginning

in the Provinces of Punjab, U. P., Madras, Ajmer and Coorg. These shares are of different denominations. The value of a share in Coorg was Rs. 10 or Rs. 20 each; in Ajmer it was Rs. 5 and in Madras Re. 1. In Burma it was fixed at Rs. 10. Such shares are paid on admission and carry no dividend or right to participate in the profits. They are withdrawable on cessation of membership. In the Punjab and U. P. shares were of a face value varying from Rs. 10 to Rs. 100, and were payable by half-yearly or yearly instalments over ten years; at the end of that period shares are withdrawable. On the expiry of a ten year period, $\frac{3}{4}$ths of net future profits are available for distribution among the shareholders in proportion to the shares they have paid up in two provinces. But there is the essential difference in the fact that all profits earned during the period of ten years are carried to Reserve Fund in U.P. while in the Punjab only 25 percent of the profits is carried to Reserve Fund, and the balance is distributed in the form of new shares. In other provinces the share and non-share societies flourished side by side, the latter predominating. In Bombay the policy of having no shares in the unlimited liability societies was consistently followed up to 1925 and this policy was revised in 1926, on account of many advantages the share system offered and it was made applicable to the societies in Canal areas where commitments were heavy, to societies in the famine areas where the financial position was precarious and insecure, and to societies in areas where the cultivator did not possess, the right of alienation of the land he cultivated. During 1927 shares were introduced in special tracts and in 1929, the system was accepted for the Presidency as a whole, and no new society could therafter be registered with non-share bye-laws, unless there were special reasons. In Sind, which formed a part of the Bombay Presidency at the time, the share system was permitted from the very beginning on account of special reasons, the chief amongst them being the religious scruples of the Muslim population to accept interest on deposits and inability of the cultivating classess to offer any tangible security, as they were mere tenants-at-will. The MacLagan Committee was in favour of limitation of dividends on shares so as to prevent the neglect of co-operation in favour of individual profit. The maximum suggested was not to exceed the ordinary rate charged by a society on its loans, and the Committee also saw no objection

to the value of share being compulsorily deducted from loans granted to members. The amounts raised by way of entrance fees and share capital in a rural credit society being inadequate to meet its needs, there are two other ways of tapping capital, i. e., by means of deposits and by borrowings. The distinction between a loan and a deposit may be clearly grasped. A loan is money taken by a society on terms fixed by the lender or the creditor, while a deposit is money offered to the society on terms fixed by the society in accordance with its bye-laws. Deposits should preferably be raised from members and from people in the neighbourhood if the society is not able to raise adequate amount from its members. The Maclagan Committee laid great emphasis on tapping local deposits, as they imply thrift in the village and form good lying money. Deposits also tend to interest in the management of the society a useful body of men who stand as sentries over their own deposits. At the time when the Committee reported deposits formed only 10 per cent. of the total working capital of a society on an average in all the provinces, and members' deposits formed only 40 per cent. of the total amount of deposits on an average. In some provinces there was the system of compulsory deposits which members were required to make at stated intervals and they differed from compulsory subscribed shares in that they carried no liability and their interest was secure. The justification of such deposits was that thrift should come before credit. But in actual practice it was found that members joined societies to borrow and had no money to deposit at first. As a means of inculcating thrift and building up owned capital such instalment shares were deemed to be preferable to the compulsory deposit system. The most commonly employed period for acceptance of such deposits was one year and deposits fixed for more than one year were also accepted at higher rates of interest. Since yearly deposits were frequently renewed on maturity, the receipt of long-term deposits was not of much importance in agricultural credit societies. In some cases societies were found to take deposits at call and on current account but in view of the trouble of keeping accounts and risk involved in keeping monies on hand, the Maclagan Committee discouraged the practice of taking such deposits by the primary agricultural credit socities. But they saw no objection to the acceptance of savings deposits, as the system was already in vogue in U. P.,

Burma and Bombay. If the system could be introduced with proper safeguards, these societies, in the opinion of the Committee, would furnish to agriculturists a safe method of investing small savings in an institution which members know and in which they have confidence. It is obvious that owing to the difficulties of maintaining accounts and receiving resources frequently, only a few well-managed societies could be permitted to take deposits of this nature. There is the temptation for societies to borrow excessive amount of money on deposits and the total borrowing limits inclusive both of loan and deposits will have to be fixed. This limit is restricted to 1/8th unencumbered assets of a society in Madras, while it is restricted to 1/6th of such assets in Bombay. As regards repayment of fixed deposits before maturity, it is found that repayment of long-term deposits before due date should not generally be encouraged and could be permitted, only for exceptional reasons. In cases where they are permitted a substantial reduction of interest should also be made.

Owing to the misuse which the Panchayatdars made of non-members' deposits in the Bombay State severe restrictions were placed on acceptance of deposits from non-members beyond a certain area and subject to certain safeguards. Past experience has shown that societies are unable to raise the amount needed by them for their requirements by way of local capital only and they have had to borrow from central banks operating in their area. As already indicated, borrowings of societies from outside sources are normally fixed in the Annual General Meeting subject to an overall limit which has reference to the value of unencumbered assets of the members. Primary societies generally apply for loans to central financing agencies either through the Registrar or through a co-operative supervising union to which they are affiliated. A primary rural society becomes a member of a supervising union which is a body formed of constituent societies in an area as extensive as a taluq or a small area. The duties of a union are to advise the Central Bank on the grant of loans to its affiliated societies and to supervise their working. A body of this kind has got fairly intimate knowledge of the affairs of its affiliated societies and of their individual members and it is, therefore, in a position to give a proper opinion as to the propriety of a loan asked for and to

supervise the use of the loan when granted. In any doubtful case the union can refuse to recommend the loan. The central financing agency would, in general, sanction the loan asked for by a society with due regard to the funds available and the claims of other societies. The loan when sanctioned is issued to the society under conditions varying in different provinces as to repayment of principal and interest. In most cases the interest on the loan has to be repaid regularly each year or half year, but the practice differs widely as to repayment of principal. In some cases it is repayable in instalments spread over periods of from one to ten years. In other it is repayable in one lump sum after a term of years. On average loans borrowed from central financing agencies are repaid within a period of three to four years, and rate of interest charged varies from 7 to 9 per cent. The Central financing agencies are expected to recover repayment of their loans from the societies corresponding to the repayments made to the society itself by the members. It is no doubt the business of a central financing agency to see that the credit of a borrowing society is carefully assessed, i. e., the total external borrowing of a society–whether as deposits or loans should be fixed annually. Without systematic arrangement of this kind no proper relation could be maintained between their creditworthiness and the liabilities they incur and it is essential, therefore, that a maximum limit should be fixed for such borrowings which may be varied from time to time according as the society gains in strength or otherwise.

(f) **Owned Capital.** The proportion of owned capital to total working capital of societies varied from province to province and the All-India average was 22.3 per cent when the Maclagan Committee reported. The following table indicates the percentage of owned capital to total working capital shown against the name of each province :—

Madras	17.9	Burma.	33.9
Bombay	30.9	Cenl. Provinces	8.3
Bengal	24.8	Assam	45.7
Bihar & Orissa	19.1	Coorg	80.5
Punjab	49.1	Ajmer	19.6

(g) **Loans to Members.**

(i) **Need for prompt Finance**:—Loans must be made with promptitude as otherwise there is the likelihood of members resorting to moeny-lenders. If on the other hand, monies are kept on hand to meet demands as and when they arise, there is a danger of funds being misappropriated by office-bearers of societies and consequent to the reputation of a society. In order to overcome this difficulty, the MacLagan Committee suggested that confidence must be reposed in a society's officials and a certain amount of risk run, but the risk itself must be reduced to a minimum. According to the Committee, loans required for meeting the seasonal agricultural demands should be distributed at one time, so that isolated calls for money may be as few as possible. Such isolated calls should be met by empowering the Chairman or a sub-committee of Panchayatdars. As this entails handling of cash, the power is recommended to be conferred within narrow limits.

(ii) **Assessment of Credit of a Member**:—The borrowing powers of a society are ordinarily fixed each year by the Central Bank and the Registrar within the overall limit to which it is entitled. This limit goes up to a stated proportion of the value of the unencumbered assets of members. Apart from the limit so fixed, it is necessary that the society itself should fix a limit upto which the members as a body are prepared to pledge their liability and the limits up to which individual members should be entitled to receive loans for their normal operations from the Committee. A general meeting of members in every province fixes once every year the limit upto which the committee may borrow and the amount so fixed is communicated to the Central Bank before the latter assesses the borrowing power of the society. It may happen that the limits fixed by the general body and the Central Bank may not be identical. If the limit fixed by the Central Bank and the Registrar is higher than the limit fixed by a general meeting, the society can borrow upto the limits sanctioned by the general meeting, whose sanction would be necessary for the additional sum sanctioned by the Central Bank and the Registrar. If, however, the limit fixed by the Central bank and the Registrar is lower than that sanctioned by the general body, it can borrow

upto the limit so sanctioned. The general meeting also fixes the maximum normal credit for each member for the following year after taking into consideration the ordinary requirements of his occupation, his earning capacity and his character. The Committee cannot, however, extend the limit so fixed. Loans sanctioned are given either on pro-notes or on bonds and the pro-note has certain advantages over the bond. In the Punjab the MacLagan Committee noticed that members were allowed to borrow without becoming full-fledged members and without a right of participation in profits of the society. This practice was frowned upon by the MacLagan Committee.

(iii) **Object of a Loan:**—The Government of India, in their famous Resolution of 1914 explained that it was not possible for societies to insist on loans being granted only for productive purposes and loans for purposes other than productive could be granted within certain limits. In this connection, the MacLagan Committee recommended that societies should see that the expenditure was inevitable and the amount granted for purposes other than productive was not excessive. From the data available to the Committee regarding different percentages of loans for different objects in some of the provinces, it was found that the highest percentages were recorded for redemption of debts and next in rank came purchases of cattle. It was only in Coorg that a higher percentage of loans was for cultivation expenses. The subsidiary objects for which loans continued to be granted were payment of land revenue, purchase of fodder, purchase of implements, ceremonial expenses and litigation and holding up of produce for a better market. Provisions also existed for recall of loans in case of misuse, but the provisions were rarely utilised.

(iv) **Periods for which Loans are given:**— Normally the practice is that the period of loan is fixed at the time of its issue. In case of loans for productive purposes the period should be long enough to allow repayment of the loans out of their own utilization. The periods for which loans are made are ordinarily fixed in the bye-laws with maximum periods for different objects. Loans are classified as

(1) Loans for seed, food, cultivation expenses, fodder for cattle.

(2) Loans for purchase of cattle or carts, hire of farming implements, loans for petty debts.

(3) Loans for liquidation of large debts, purchase of land and loans for land improvement.

The first class must be repaid invariably after the next ensuing harvest while the second in two to three years and the third in three or four years. One of the drawbacks in the issue of loans to members has been noticed to be the absence of any distinction made between short-term and long-term loans, and that advances are made for divergent purposes at the same time and in one lump sum. Only one bond is taken and dates for repayment are fixed with reference to the purpose for which the largest amount is borrowed. This makes it difficult to see whether repayments are made from the utilization of the loans. It is only at a later stage of the development of the movement that such distinction came to be made in financing members' needs and separate agencies established for dispensing short-term and long-term credit. The MacLagan Committee discouraged the young societies to lock up too large a proportion of their resources in long-term loans, as the amounts involved would be large because the long-term loan is always larger in amount than a short-term loan. Further, it is also unfair to devote a larger proportion of the funds available to this class of loans. Hence it is recommended that at the beginning of a society's career it should try to meet the needs of people requiring short-term credit repayable in the ensuing harvest. Further, it is a Raffeisen principle that in all cases where the period of a loan exceeds one year, it should be made repayable in compulsory annual instalments of principal.

(d) **Sureties** :—According to co-operative theory, the primary security for a loan should be personal. This means that the borrower himself and his sureties rather than their property be looked to when a loan is given. Co-operative practice

differs in some provinces in this regard. It is thought that a borrower alone should be responsible for the loan and that no surety should be demanded from him. In C. P. and Berar the MacLagan Committee found that it was optional to require sureties while in provinces like Assam, Coorg and Punjab, they were taken in exceptional cases only. The Committee was, therefore, of the opinion that sureties should be taken not only to facilitate recoveries of loans but also to guard against the grant of excessive loans or to prevent misapplication of loans issued. It is also deemed desirable that sureties should ordinarily be members in order to be dealt with under the arbitration procedure. When a default occurs on the part of a borrower, the sureties should be proceeded against before having recourse to any ulterior form of recovery. Such action is essential in order to maintain the sense of mutual responsibility which is the main safeguard of the co-operative movement.

(e) **Form of Security for Loans:**—The central principle of co-operation, as already indicated, is that security for loans should be personal and not the property of borrowers. The idea underlying the principle is that it implies the power to repay on the part of the borrower and this in its turn depends on his capacity as a worker, his honesty of character and the amount of his property. The MacLagan Committee considered that there was nothing unco-operative in the practice of taking mortgage of immovable property as security for a loan provided a surety or sureties were added and the borrower's property regarded as collateral security. In case of default, the Committee further recommended action to be taken against the surety or sureties before taking action against the property. The Committee noticed that in several provinces mortgages were taken more freely than was necessary, though the practice should not be regarded as non-co-operative if sureties had been added. This practice was also recommended for adoption in the Bombay State much later by the Bhansali-Mehta Committee in all cases where immovable property was offered as security for a loan. But the MacLagan Committee prescribed one condition, viz., that land should be taken as security for loans granted for redemption of old debts and a simple mort-

gage was to be preferred, as societies were not suitable agencies to manage land in their corporate capacity. In certain provinces, because of the operation of the land alienation laws or other tenancy laws, giving to the tenants a limited right in the lands cultivated, it was not possible for a co-operative society to obtain a valid mortgage of property, on which it could sue for sale. In such cases, the MacLagan Committee was of the opinion that it was not desirable for a co-operative society to invest much money in financing the needs of a tenant unless the tenant had a reasonable assurance of continuing in enjoyment of his holding and was not liable to sudden eviction without any fault on his part.

(f) **Rate of Interest charged on loans**:—The question of charging a proper rate of interest on loans to members in a primary society is a very important one, and the specially appointed MacLagan Committee endorsed the Government of India's attitude on the subject expressed in its famous Resolution of 1914; the Committee was accordingly of the opinion that so long as the rates of interest charged by the societies were below those of the outside market, they could not be regarded as excessive and that there was real danger in effecting sudden and large reductions below such rates. The Committee further recommended that once the rate was fixed, it should be entered in the bye-laws and should be unalterable without the sanction of the Registrar. The Committee found that rates charged varied not only from province to province but even from region to region within a province, as uniformity was not possible since local conditions varied and the presence or absence of intermediate agencies affected the margins. The Committee also found that because of competition of co-operative societies everywhere, the money-lenders' rates had been brought down and that in some provinces the reduction had been so great that societies' rates themselves had to be lowered. The Committee was opposed to a policy of continuous reduction in the rates of loans on the ground that the first duty of a society is to build up a strong reserve fund and the best method of doing it lay in the increasing of a society's own capital, so as to obviate the difficulties of a central financing agency occasioned by the fixation of too low rates on the lendings by the affiliated societies or their premature reduction below

level of safety. At the time when the MacLagan Committee investigated, the rates of interest in vogue in different provinces were as under :—

Bombay	...	9-3/8%
Madras	...	9-3/8%
Bengal	...	15%
Bihar & Orissa	...	15-3/8%
U. P.	...	15%
Punjab	...	12½%
Burma	...	15%
Central Provinces	...	12%
Assam	...	12 to 18-3/4%
Coorg	...	12½%
Ajmer	...	12½%

The Gadgil Committee recommended that every effort should be made to reduce the rates of interest on short-term and intermediate finance charged to the ultimate borrower as much as possible so as not to exceed 6¼ per cent in any case. In areas where a high rate is due to the small size of the unit and high cost of administration, the Government should subsidize the cost of administration, so as to bring down the lending rates within the recommended limits. In accordance with these recommendations, the rates of lendings to ultimate borrowers had been reduced for some time by the grant of certain concessions to central financing agencies in the Bombay State, but owing to tightness in the money market subsequently, the rates had to be put up in addition to the grants-in-aid, normally made to the primary agricultural credit societies to meet the deficit in the cost of their administration. The result of the implementation of the recommendations of the Gadgil Committee in Madras has been that even today (1954-55) there were more than 3000 societies that worked at a loss owing to contraction in the margin between lending and borrowing rates. The note of warning which the MacLagan Committee sounded years ago with regard to the undesirability of reducing continuously the rates of interest on lendings in primary societies has been more than justified.

(g) **Overdue Loans**:—One of the most prominent or dangerous defects in the management of primary agricultural credit

societies is the laxity in repayment of loans as tolerated in some of the provinces. The MacLagan Committee, therefore, rightly emphasized that unless loans were repaid punctually and in cash, co-operation is both financially and educationally an illusion. If for good reasons a member is unable to repay the loan on the date fixed, the Committee is justified in granting an extension and such loans should be classified as authorized overdues. One of the methods adpoted for dealing with arrears is to charge penal interest on the amount overdue at an enhanced rate from the date of default and this practice is unobjectionable. Another irregularity which is often found and which is dangerous is the practice of permitting renewals based upon fictitious repayments. This evil obviously undermines the chief principles of co-operation and special care should be taken at the time of inspection of a society to arrest the evil when suspicion about paper adjustments arises. The only remedy which the MacLagan Committee suggests for combating the evil is the special care at the time of inspection to expose all such cases and to watch the maintenance of a properly working relation between the recoveries of loans from members and the money remitted therefrom to the Central Bank. When the MacLagan Committee investigated the average percentage for four years ending 1914, of repayments in each province on the total amount of loans outstandihg at the end of the previous year plus the loans advanced during the course of the year was 31.0.

(h) **Reserve Fund:**—From the point of view of members security, an adequate reserve fund in a primary society is quite necessary. The Co-operative Societies Act requires 25% of the net profits to be credited to the reserve fund which is further augmented by entrance fees or forefeited shares. The Act itself is silent on one point and that is the manner in which the fund should be utilized. This is relegated to the rules framed under the Act. Even at the time when the MacLagan Committee investigated co-operative practice in this regard varied considerably. In some provinces the reserve fund was utilized in loans made by the societies to their members; in some, the surplus assets constituting the reserve fund were placed in deposit with other co-operative institutions or invested in shares of central

financing agencies. In others they were separately invested wholly or partly in outside securities, while in one province the reserve fund was invested in Government and other Trustee Securities. According to the opinion of the MacLagan Committee, in the case of the majority of primary societies, assuming that they are secure in respect of their fluid resources, it is desirable that they use their reserve fund in loans to members. Co-operative practice in regard to the investment of reserve fund differs even today from province to province as mentioned below:—

(1) **Investment of Reserve Fund in the business of co-operative institutions** :—In the following States reserve fund is invested in their own business :—

(1) Bombay	(2) Bhopal
(3) Saurashtra	(4) Himachal Pradesh
(5) Pepsu	(6) Uttar Pradesh
(7) Ajmer	(8) Delhi

(2) **Reserve Fund separately invested:**—In the following States the reserve fund of co-operative societies is as a rule separately invested:—

(1) Madras	(2) Orissa
(3) West Bengal	(4) Madhya Pradesh
(5) Travancore-Cochin	(6) Hyderabad
(7) Coorg	(8) Bihar
(9) Mysore	

In Madras the reserve fund is invested in the form of deposit with Central and State Co-operative Banks. The compulsory investment of a society's reserve fund in another co-operative society cannot be commended as a sound practice to follow, particularly when the Central Financing Institutions with which it is deposited have been embarrassed rather by surplus capital than by a deficit. When a primary society invests the whole of its reserve fund in the financing institution to which it is affiliated, the shaky position of the latter may drag even a well-managed society in its crash, as happened in Orissa in the 1930's. It was for this reason probably that the MacLagan Committee was opposed to this practice not only as making the reserve fund not readily available to primary societies but also as enabling

shareholders in the central banks to swell their dividends at the expense of primary societies. The Committee on Co-operation in Mysore, while approving of the utilization of the reserve fund in the business of unlimited liability societies stipulated that where it was so used, interest at the same rate as on deposits paid for one year should be added to the reserve fund.

(1) **Management of a primary Agricultural Credit Society:—** The management of a society is democratic, being based on the principle of one man one vote. The management is vested in two bodies--a general body consisting of all members and the Managing Committee consisting of five to nine members chosen from among the members at the general meeting. The general body is the supreme authority in all matters concerning the affairs of a society. But the detailed executive management is entrusted to the managing committee or the Panchayatdars. From the Panchayatdars a chairman or a president is elected. For doing clerical work a secretary is appointed, who is often an honorary worker. The general body meets once a year and its duties are :—

(a) To receive a report from the committee on the preceding year's working.

(b) To elect a managing committee for the ensuing year.

(c) To appoint an honorary secretary and fix his honorarium.

(d) To fix the limits of outside borrowings subject to the overall limits fixed in the bye-laws of the society.

(e) To fix the normal credit of every member.

(f) To expel ordinary members and to remove Panchayatdars under the provisions of the bye-laws.

(g) To alter, rescind or amend the bye-laws.

(h) To sanction the levy of penal interest, if any, in suitable cases.

(i) To grant extension of time for loans for periods in excess of one year.

(j) To consider the audit memorandum, the audit ratification report from the managing committee and any other communication received from the Registrar and Federal Societies.

The general body should not delegate its powers to Panchayatdars or to anybody. The managing committee is responsible for carrying on the day-to-day routine administration of the society, subject to the provisions of the Act, the Rules and the Bye-laws, and the directions conveyed from time to time by the general body in its resolutions. The Managing Committee normally admits new members, considers applications for loans and grants them, takes steps for recovery of loans, raises funds for the society and exercises supervision over the work of the Secretary and inspects the accounts maintained by him. The service on the Committee is gratuitous and the Secretary is paid a small bonus out of the net profits.

(4) **Dissolution and Liquidation of a Society**:—The causes that are put forward as responsible for failure of societies are varied and include a lack of supervision, indiscreet loans, contumacy of borrowers, unpunctuality in repayment of loans, restriction of loans to a few individuals, dishonesty or incompetence of societies' officials, bad selection of members, too large an extension of area of a society, concealment of old debts, faulty organization and constitution, internal dissensions, inadequate funds or membership, dominating influence of one member and general lack of interest by the generality of members in the affairs of the society. In the early days of the movement when the officers of the Co-operative Department were inexperienced and experiments were conducted on uncongenial soil, there was a tendency to form societies which should not have been formed. Even subsequently, where the original faults were avoided, the MacLagan Committee found that old societies were permitted to outlive their utility or usefulness but which should have been long ago dissolved. The Committee, therefore, recommended that a society which showed little hope of life should forthwith be dissolved, as it found that in some provinces there was a tendency to deal with hopeless societies too tenderly. At the time the Committee reported, 500 societies had been dissolved and 436 societies had been dissolved and liquidated.

(5) **Audit and Supervision** :—The MacLagan Committee laid great stress on the value of constant and vigilant scrutiny of the accounts and examination of the general management of primary societies through the agency both of the Registrar's

staff and of the Co-operative institutions themselves. Though these inspections are of the nature of routine work showing no immediately striking results, their value in keeping up the efficient working of the society need not be over-emphasized as failures of societies eleewhere are reported to be largely due to their inefficiency or absence. According to the Committee, the efficiency of a co-operative institution depends very largely on the arrangements made with respect to the two important safeguards, provided by periodical audit and constant supervision. Both supervision and audit were carried on in the early days of the movement under the ultimate control of the Registrar and the MacLagan Committee prescribed that there should be one Registrar or Joint Registrar for every thousand or a fraction of a thousand societies and that they should be provided with Assistant Registrars under them from the cadre of Assistant Collectors or the Provincial Civil Service. Where new developments took place in the sphere of non-agricultural or non-credit co-operation involving constant thought and attention, a large number of controlling offices was recommended by the Committee for appointment. The statutory audit, according to the Committee, should extend somewhat beyond the bare requirements of the Act and should embrace an inquirty into all the circumstances which determine the general position of a society. Audit should be a State-controlled audit and the audit staff, from whatever source they may be paid, should, in the opinion of the Committee, be responsible to the Registrar and be controlled by him. It was further of the opinion that the entire audit staff need not be Government servants and recommended that the audit staff should be divided into two sections—(1) a staff maintained by Government for super-audit and (2) a staff maintained by co-operative institutions for carrying out original audit. The Committee further prescribed that an auditor should be in charge of about 100 primary agricultural credit societies and the officer in charge of super-audit should be able to supervise about an equal number of societies. The super-audit in the first instance should take place once in every two years and larger intervals might be permitted, as the staff employed by the institutions became more equal to its auditing duties in course of time. The MacLagan Committee, however, deprecated the

creation of a big Department on large scale and let loose a new set of Government officials on villagers, and apprehended that the officialization of the audit work of primary societies might breed a sense of hostility on the part of societies towards audit. The Committee further recommended that the Registrar should prescribe a form of audit report giving in sufficient detail the points on which enquiry should be made at the time of audit, but it set its face against the use of such a form as a means of collecting elaborate stastistics (which is now actually the case in some provinces), rather than of testing the real condition of societies. The Committee recommended that in the case of primary agricultural credit societies the audit prescribed should be a cent-per-cent one, checking all entries in the account books. When the audit was completed, a copy of audit report should also be sent to the central bank or the union to which the society was affiliated. In regard to the liability of the auditors for the negligent work, the Committee recommended that it should be the same as that attaching to commercial auditors working under the ordinary civil law. As regards supervision, it is obvious that it differs from audit, although it might cover many of the points involved at audit. The main aim of supervision as distinguished from audit is to test efficiency of the society with a view to helping it to be efficient and it comprehends the further task of seeing that the defects noted at audit have been remedied. It is the duty of the supervisor to see that the work of the society is not only businesslike and upto-date but co-operative as well. He should also further test the knowledge of the committee and ordinary members and advise them with regard to difficulties and disputes, to explain and remedy mistakes and to help the society to be efficient in all respects. These functions of supervision should, according to the MacLagan Committee , devolve on the co-operative institutions themselves and in fact, they are discharged by them. The number of supervisors maintained by the institutions in different provinces at the time when the Committee reported, was 274. The Committee, however, found that the supervising staff was organized in different ways in different provinces. In C. P. and Berar, e.g., it was included along with the audit staff in a single cadre employed by the Provincial Co-operative Union into which the central banks

were also combined for the purpose. A similar position existed in Bihar and Orissa. In other Provinces the supervising staff was appointed and controlled by the Directors of Central Banks for the benefit of their affiliated societies or by the unions where they existed.

(6) **The Registration of a Society**:—For registering a society an application signed by at least 10 adult persons residing in the same village or a group of villages has to be submitted to the Registrar accompanied by copies of bye-laws which the promoters want to be registered. In ordinary practice, the promoters adopt the model bye-laws framed by the Co-operative Department with such slight modifications as may be permitted by it. If the Registrar or his Deputy to whom the powers of registration are delegated is satisfied that the proposed bye-laws are in conformity with the Act and the Rules and that the proposed society has a fair chance of success, he registers the society and issues a certificate of registration. When the bye-laws so approved by the Registrar are further adopted with or without modifications by the promoters in the first general meeting, the society comes into existence and becomes a corporate body with a perpetual succession and a common seal. It then acquires all the rights and becomes entitled to all the privileges conceded to it under the Act. A certification of registration is a conclusive evidence that the society is duly registered.

(7) **Growth of Societies between 1929-30**:—By the time the World War I broke out, the exploratory period was practically over and great expansion took place for reasons mentioned elsewhere. The policy of having a small village society on the Raiffeisen model was a marked feature of the co-operative movement until 1930. The following table indicates a broad trend of expansion:—

	1915-16	1929-30
No. of Primary Agricultural Credit Societies. ...	17,729	91,786
No. of Members (in thousands) ...	729	3118
Owned Capital (in lakhs) ...	717	1007
Deposits from members (in lakhs) ...	34	181

		1915-16	1929-30
Working Capital (in lakhs)	...	516	3493
Loans made during the year (in lakhs)	...	228	1205
Loans repaid during the year (in lakhs)	...	175	948
Loans due at the end of the year (in lakhs)	...	455	2873
Overdue arrears (in lakhs)	...	79	734
Profits (in lakhs)	...	20	126

During a period of a decade and a half, there was a five-fold increase in the number of societies and a fourfold rise in membership. There were also considerable increases in the amount of deposits, owned capital, working capital and fresh finance made to agriculturists. Simultaneously, with an increase in the amount of loan outstanding there was also a rise in the percentage of overdues to loan outstandings from 17 to 25. The average membership per agricultural society fell from 41 in 1912-13 to 34 in 1929-30. Bombay and Madras States had an average membership per society of 72 and 54 respectively, but in several other states the average was considerably less. The Central Banking Enquiry Committee, writing in 1931, made mention of the difficulties which primary agricultural credit societies had to face " on account of the precarious forms of security owing to the physical risks to which production is subject, the demand for loan to finance maintenance, religious obligations, litigation, speculation and discharge of debts and on account of the fact that the majority of members were of a character to whom no credit will be advanced by any banker who conducts his business on principles of sound banking. " The position of the co-operative movement was not very satisfactory on the eve of the economic depression, as it was suffering from the consequences of hasty expansion as a result of which the various safeguards which the MacLagan Committee had prescribed had been neglected. The radical defects from which the societies were suffering even prior to 1929-30 were the indifference of Panchayatdars, issue of loans without proper consideration of their purpose and repaying

capacity of borrowers, failure to take prompt measures for the recovery of the amounts in default, absence of mutual supervision and mutual watchfulness on the part of members and their general ignorance and lack of education in the true principles of co-operation. The village society had in fact degenerated into a mere conduit pipe for the flow of finance from the central financing agency seeking investment of its funds and the borrowers in the primary society who were in no particular hurry about the repayment of their obligations. This position of a village credit society was also corroborated by the Assam Banking Inquiry Committee which described it in the following words:—

" All that the rural society means to the farmers is that it is a bank somehow or other connected with Government from which they can get money at a cheaper rate than from the money-lender, that there is no particular hurry in repayment and that it does not matter much if they utilized the loan for some other purpose than that for which they had professed to take it, there is no reason why they should work harder, be more thrifty or spend their money more carefully than they did before they became members." This picture of a primary society fairly represents the attitude of the generality of members towards their society at the time and may be taken to represent the position as it obtained in other provinces as well. Thus the village credit society was merely regarded as an agency dispensing facile credit. No wonder, therefore, that with the advent of the economic depression which was unprecedented in its range, duration and severity, and which brought about a catastrophic fall in the prices of agricultural products, reducing the income and the repaying capacity of the agriculturist, the troubles of the rural credit societies were greatly aggravated. Thus the impact of the world economic depression of 1930's brought about a crisis in the co-operative movement. During the boom which preceded the depression, members borrowed heavily and freely from co-operative societies and others and a majority of them could repay the instalments of their loans with some degree of regularity. But with the onset of the depression their cash income fell considerably and they could not make both ends meet, much less repay their debts to societies. The following statistics regarding the position in regard to overdue

arrears in agricultural credit societies in some of the major provinces in India show the degree of deterioration that had set in in 1936 :—

(Figures in lakhs)

Provinces.	Amount of loan outstanding.	Amount overdue.	Percentage of overdues to loan outstandings.
1. Madras	351.99	162.07	46.1
2. Bombay	247.36	128.24	51.8
3. Bengal	346.39	345.80	87.4
4. United Provinces	75.91	36.21	47.4
5. Bihar	104.18	96.40	92.5

(B) The following table indicates how the position of overdues to loans outstanding stood in some of the province at the end of 1938-39.

(Figures in lakhs)

Provinces	Loans outstanding	Overdues	Percentage of loans to overdues
(1) Madras	421.91	169.04	40
(2) Bombay	254.31	144.96	57.3
(3) Bengal	385.28	343.68	89.2
(4) Bihar	101.27	95.74	94.5
(5) Orissa	44.31	39.70	89.9
(6) U. P.	98.00	36.24	40.4
(7) Punjab	619.22	58.58	9.3
(8) C. P. and Berar	71.41	49.66	69.0
(9) Assam	5.38	4.89	85.3

These statistics show that the funds of societies had got frozen with some defaulters and the members who repaid their dues in time, could hardly get fresh finance. Thus a large proportion of agricultural credit societies had ceased to be live organizatio ns and active suppliers of credit. During 1938-39, 9 per cent of

the societies were reported to be in the process of liquidation, but in some provinces this percentage exceeded 10, while in C. P. and Berar it was as high as 28. The degree of deterioration that had set in in the working of primary agricultural credit societies could also be measured by the yardstick of audit classification of these societies. In Bombay 42.1 per cent of societies were placed in D class, while in Assam and Delhi the percentages were 41.5 and 27.7 respectively. Uttar Pradesh had 37.1 per cent of societies in D class and 15.9 per cent in E class. The position of the movement was vividly protrayed by the Madras Committee on Co-operation in 1940 in the following words :—

" The large number of liquidations in recent years, the increasing number of societies which have not borrowed for years, the marked rise in the arrears, from members to societies and from societies to financing banks, the increasing number of arbitration references and decrees, the forced purchases of lands of members by societies, supersession of Panchayatdars and the appointment of agents for the management of societies—these are all the elements of a situation which cannot be viewed with equanimity and which indicate a general lack of vitality on the part of many agricultural credit co-operatives. The problem, therefore, that faced the societies, the central banks and the Co-operative Departments was two-fold : (1) to lighten the burden of members' debts so as to bring them to a level with the prevailing agricultural prices and to recover the debts gradually without undue hardship to them, and (2) to regulate the supply of fresh agricultural credit to members with due regard to their reduced paying capacity. Everywhere the problem for the removal of indifferent societies liquidating bad ones and for toning up dormant societies became pressing, after an examination of individual loans in them. In most of the provinces Committees of Enquiry were appointed and schemes of rectification and consolidation were put into effect as a result of the recommendations of such Committees. The chief features of these schemes, were by and large, a classification of loans, according to security and ability of the borrowers to repay the loans out of their income and the taking of suitable action within a stated period for recovery or resort to coercive measures for the recovery of debts

according to the circumstances of each case. There were two objects underlying the classification of debts; one was to get all doubtful debts secured by obtaining additional security from the borrowers, if that was possible, and the second was to ascertain the amounts of debts that were to prove bad even after all positive steps had been taken for their realization. These schemes of rectification and consolidation proved very helpful in the determination of the real financial position of societies and soundness of the debts due from members to societies. The schemes further enabled the central financing agencies to asecrtain their position in relation to bad and doubtful debts in societies with a reasonable degree of certainty and to make proper provision for any loss that might eventually arise. Another healthy effect of these schemes was that a good portion of frozen debts was either liquefied or recovered. The endeavours of central financing agencies and societies to reduce the burden of old arrears took the form of extending to members of societies several concessions. These concessions included the reduction in the rate of interest on loans to punctual repayers, exemption from penal interest, scaling down of debts to paying capacity and their transfer to land mortgage banks, reduction in the rate of interest on loans referred to arbitration, irrespective of the contract rate repayment in suitable instalments. The following statement gives in brief a statistical view of the result of carrying out the programme of rectification up tc 30th June 1939 in the Madras State: (vide Report of the Committee on Co-operation in Madras, page 133).

(1)	No. of Societies in which examination was carried out	6,981
(2)	Total amount of debt due, inclusive of interest	(in Lakhs)
	...	29.547
(3)	Out of (2), debts fully secured. ...	213.47
(4)	Out of (2), inadequately secured. ...	82.00
(5)	Out of (4), amount either collected or for which additional security has been taken. ...	22.72
(6)	Balance inadequately secured. ...	59.28
(7)	Estimated bad debts. ...	33.33
(8)	Out of (7), the amount that would affect the central banks. ...	6.80
(9)	Debts realized during the rectification process.	77.74

Similarly in Bombay, classification of debts was also undertaken and up to the end of 1948-49, the process was continued and the following table gives the details in regard to the number of societies in which classification of debts was made and the amounts involved etc.

No societies in which classification was made,	Total amount of loans outstanding.	Frozen debts.	Doubtful debts.	Bad Debts.	Total.
			(Amount in lakhs)		
	Rs.	Rs.	Rs.	Rs.	Rs.
5203	339.79	27.08	3.52	2.40	33.01

From the point of view of realizability, overdue debts were classified into frozen overdues, doubtful debts and bad debts, as the above statement indicates.

(a) **Frozen Overdues.** When sufficient assets were available but normal repayments were not forthcoming by way of principal and interest for more than three years, the defaulted amount was classed as a " frozen overdue ". A list of frozen overdues was prepared by the supervisor in collaboration with the bank inspector. Individual concession scheme was permitted if the collective scheme did not succeed with a view to liquefying the frozen overdues. The maximum period allowed for recovery was five years. Fresh finance was given at a rate $\frac{1}{4}$ pie in excess of the ordinary rate of interest, provided the defaulter mortgaged adequate assets to the society.

(b) **Doubtful debts.** If defaulted principal and interest exceeded the available assets of the borrower and his sureties and interest arrears exceeded three years, the debt was classed as doubtful. Auditors of the Co-operative Department were enjoined to prepare a list of doubtful debts with the assistance

of the supervisor or the bank inspector. All available assets of the defaulter were required to be mortgaged before concessions were granted. All recoveries were credited to principal and accrued interest and shown in a suspense account, and recovered later, if possible. Further accrual of interest was stopped for one year if there was a genuine attempt on the part of the defaulter to make payments. Continuance of the concession was considered from year to year. Fresh finance on a restricted scale against repayment was granted on the mortgage of standing crops and at rate of interest, ¼ pie in excess of the ordinary rate.

(c) **Bad Debts.** Where a person had got very inadequate repaying capacity and he and his sureties had no available assets, the debt was classed as a 'bad debt'. Further criteria laid down classifying a debt as bad were :—

(i) Neither the principal debtor nor his sureties should have any tangible assets.

(ii) The principal debtor should possess no steady source of income from which repayment of debt is feasible.

(iii) All legal remedies for recovery must have proved abortive.

(iv) No repayments towards the debt should have been made for a minimum period of three years.

Auditors were charged with the duty of preparing a list of bad debts with the help of the supervisor and the bank inspector. The bad debts were, in the first instance, written off against the reserve fund of a society. If the latter was smaller than the amount of bad debts, the margin between the borrowing and the lending rates was widened so as to increase future earnings of the society. The central financing agency was also expected to reduce the lending rate to the society if its rate of interest was high. Concession schemes were also in operation in order to liquefy the frozen dues and to ease the burden of debt to the agriculturists. There were two kinds of such schemes. One was called the collective concession scheme and the other was called the individual concession scheme. The collective concession scheme

visualized the collective efforts on the part of most of the members and a rebate of interest was granted to those who made a minimum payment according to the scale prescribed in the scheme, provided the total recoveries in the society by way of principal and interest were not less than the required minimum which was fixed according to the circumstances of each case. In cases where the position of a number of societies was such as would not enable them to make the collective effort envisaged in collective schemes, individual concession schemes were introduced which visualized the grant of remission in interest to debtors in accordance with the scale of payment prescribed irrespective of the fact whether the society as a whole did or did not effect sufficient recoveries. In the case of those defaulters who could not be fitted into the concession schemes, compromises were also effected by examining the position of the defaulter concerned carefully. According to the scheme of compromise, either lump recoveries were made or instalments were fixed if the defaulter made a satisfactory effort to meet his liabilities. Under the schemes, he was granted remission of interest and sometimes even of part principal. Based on the results of this examination efforts were made to put the finance of societies in proper order. From what has been stated above, the co-operative movement in the Bombay and Madras States was in a comparatively healthier condition during the period of the economic depression, though it could not altogether escape its effects. However, the malady in both the provinces was detected at an early stage and effective measures taken to counteract the deleterious effects of the depression. Similar schemes of rehabilitation or reconstruction were also chalked out by other provinces and the work of official and non-official workers was rendered somewhat easier owing to the outbreak of the World War II which brought about a rise in agricultural prices and the value of agricultural land. A brief reference to the measures of rehabilitation is made in the following paragraphs.

(1) **Assam.** The co-operative movement in Assam, as could be judged from the statistics relating to loans due and the percentage of overdues to loan outstandings was on the verge of collapse in 1939. The deterioration in the economic condition of the agriculturists was so great that recoveries were more

or less at a standstill and there was a shrinkage in the fresh finance. Even during the war period the position did not improve and the Provincial Co-operative Bank appointed a Committee to review the position and suggest ways and means for the rehabilitation of the movement. This Committee recommended that measures similar to those that were undertaken in Bombay and Madras should also be adopted with a request to Government to come forward to give an assurance to allay the nervousness of the public and to re-establish their confidence in the movement. No action was taken to implement the recommendations of the Committee.

(2) **Bengal.** Most of the central banks were in a moribund condition with their assets frozen, credit impaired and finances generally involved. They were unable to obtain accommodation from the Provincial Bank. As the agricultural operations were going to be seriously affected by the lack of credit facilities, the Government of Bengal placed funds at the disposal of the Provincial Bank for making advances to crop loan societies through central banks. This measure was only a temporary palliative and the Registrar, Co-operative Societies, submitted a scheme of rehabilitation as well as proposals for provision of credit facilities to the Government in 1940. The Co-operative Societies Act was also passed giving the power of supervision and the control to the Registrar with a view to facilitating the work of rehabilitation as well as promoting the growth of the movement on healthy lines. In 1945 a Banking Expert to the Co-operative Department was appointed and he submitted to Government a scheme of rehabilitation of the movement, including the reorganization of the provincial Bank. The position of the co-operative movement remained highly unsatisfactory.

(3) **Bihar.** The rehabilitation scheme as originally approved by Government was made applicable all over the Province. It was later modified and made applicable to Bihar proper, where 27 central banks were rehabilitated. A modified scheme was sanctioned for Chota Nagpur in 1944 and another in 1945 for Santhal Paraganas. All the reconstructed banks were placed under the direct control of the Provincial Bank. The purely co-operative

work for these banks including the Provincial Bank was expected to decline. A scheme based on the working of the credit Agricole D' Egypte was prepared and put into effect. This scheme is reported to have considerably helped the Bank in its rehabilitation work.

(4) **C. P. and Berar.** The amendment of the C. P. Tenancy Act in 1940-41 made occupancy lands mortgageable, while the amendment of the law of pre-emption in Berar exempted co-operative societies and their members from the operation of certain sections of the Land Revenue Code, so as to facilitate the sale of lands belonging to banks and societies. The C. P. and Berar Co-operative Societies Act was also amended so as to permit the central banks under rehabilitation to resume their normal working, Efforts were also made to reorganize the co-operative movement. Crop loan societies on a limited liability basis were formed for issuing loans to their members, for raising crops on the basis of acreage under cultivation. Reorganization of weak and uneconomic societies was pursued by their amalgamation, wherever possible, by amedning the Co-operative Societies Act. Establishment of multi-purpose societies, starting of a Provincial Marketing and Supply Society, entrusting the Co-operative Societies with the work of distribution of controlled and rationed articles and holding of training classes by the Co-operative Department were among the measures for the strengthening of the co-operative movement in the Province.

(5) **Orissa.** All the thirteen banks in North Orissa were under rehabilitation. Their total assets amounted to Rs. 34.39 lakhs while their outside liabilities aggregated to Rs. 28.63 lakhs. The bad debts were estimated at Rs. 5.47 lakhs.

(6) **Punjab.** In the Punjab various measures for rectification were taken and these included the grant of concessions for stimulating recoveries, reduction in the rate of interest on loans, effecting the recoveries in kind and the appointment of special recovery staff.

It will be seen from what is stated above that there was no uniform progress in all Provinces. The progress of rehabilitation

and reconstruction of the movement was considerably aided by the War-time rise in the prices of agricultural products which meant an increased money income to the agriculturists. The War-years also witnessed a general improvement in the overall position of the co-operative movement in India. There was an appreciable increase in the number of societies, number of members and working capital. Working capital rose from 106 crores in 1938-39 to nearly 164 crores in 1945-46. The changes in the loans and advance position showed a welcome improvement, as could be seen from the loan operations of the co-operative societies during the five years ending 1945-46 in the following table :

Year	No of Societies (in lakhs)	Fresh finance to individuals (in crores)	Loans repaid by indivi-duals	Loans outstand-ing (in crores)	Percentage of overdues to loans outstanding
1941-42	1.45	29.30	30.01	46.02	12.9
1942-43	1.46	32.98	34.87	44.13	11.7
1943-44	1.56	40.06	40.82	43.44	10.3
1944-45	1.60	41.75	49.68	46.94	9.1
1945-46	1.72	51.75	49.68	46.94	8.5

These figures indicate that there was a brisk turnover of co-operative business, the amount of fresh finance being as high as 51.75 crores as against 26.41 crores in 1939. Repayment also exceeded fresh finance and hence loans outstanding continued to be low. The reduction in overdues shows that apart from prompt repaying current finance the borrowers liquidated also a good portion of their old dues. Thus with a larger turnover, accelerated repayments and reduction in overdues the societies gained in strength and vigour. It may be noted that the greatest contribution of the War to the co-operative movement was, as already indicated, the shifting of the emphasis from the credit aspect to its production and distribution functions and the development on the non-credit side were as a result appreciable. The following table shows the statistics of primary agricultural credit societies and their non-credit activities at the end of 1945-46.

		1945-46
(1)	No. of societies	1,12,961
(2)	Membership (in lakhs)	35.75
(3)	Owned capital (in lakhs)	1329.08
(4)	Deposits (in lakhs)	391.38
(5)	Percentage of deposits to working capital	7.7
(6)	Borrowing (in lakhs)	868.65
(7)	Working capital (in lakhs)	2589.11
(8)	Fresh finance (do)	823.10
(9)	Recoveries (do)	759.19
(10)	Loans Outstanding (do)	1583.17
(11)	Overdues (do)	583.20
(12)	Percentage of overdues to loans outstanding (in lakhs)	36.8
(13)	Sale of goods (do)	482.22
(14)	Purchase of products(do)	241.29

In 1945-46 there was one society for every 3.8 villages and the population touched by the movement was 10.6 of the total, as against one society for every 5.4 villages and 6.2 per cent. respectively in 1938-39. The various enquiries conducted in different provinces in the 1930's had brought to the fore several weaknesses in the working of primary agricultural credit societies and raised certain fundamental issues regarding the area of operation, form of liability, size, scope and functions of the primary agricultural credit societies. The committee on Co-operation in Madras (1940) was the first to recommend radical changes in the area of operations, functions and the nature of liability of these societies. The liability and honorary service should be given up. It advocated a reorganization of village credit societies on the basis of (1) one society for a group of neighbouring villages, (2) a gradual conversion of rural credit societies into multi-purpose societies, and (3) replacement of unlimited liability by limited liability and employment of paid staff. These aspects of reorganization of a primary agricultural credit society received much attention and became the subject of controversies among co-operative circles at the time and different Committees or Bodies in regard to each of those aspects.

(A) **Form of Liability.** The MacLagan Committee, as we have already seen, was of the opinion that unlimited liability had been unreservedly accepted by the people, while the Bengal Banking Enquiry Committee claimed that joint and unlimited liability had been found to be essential for agricultural credit. The Gadgil Sub-Committee recommended unlimited liability for credit societies as a rule, but if in any area, adoption of limited liability was necessary to attract valuable elements to the co-operative movement they saw no objection to it, provided that a substantial part of the local capital could be raised in the form of shares. The Co-operative Planning Committee otherwise known as Saraiya Committee felt that in most provinces unlimited liability had not been very helpful to the progress of co-operative credit, as responsible people had been kept out of the movement by it. It also expressed the opinion that it was also largely illusory as long as there was no bar to the alienation of property by members. The Officer in Charge of the Agricultural Credit Department of the Reserve Bank of India observed in this context : "We feel that unlimited liability is a matter of necessity and not a matter of choice. If the funds are to be attracted at cheap rates, there seems to be no escape from this form of liability." The Thirteenth Conference of Registrars held in the year 1939 passed a resolution to the effect that agricultural co-operative credit societies should ordinarily continue their unlimited liability, but scope should be given for experiments with limited liability. According to the provisions of the Co-operative law in vouge at present in some of the Provinces, a society which has at its object the promotion of economic interest of members in accordance with the co-operative principles may be registered with limited or unlimited liability. In Bombay, a village credit society undertaking a number of subsidiary functions is styled as a village multi-purpose society and normally adopts unlimited liability, while a society which caters to the needs of neighbouring villages is known as a group multi-purpose society or a multi-purpose society and it usually adopts limited liability. In any case, unlimited liability may be regarded as suitable for credit societies of small cultivators residing in a compact area and it is hardly justifiable to retain it when a credit society takes on other functions than credit and extends its area of operation so as to include a number of neighbouring villages. In actual practice, the trend though

gradual, has been definitely towards limited liability. In several provinces unlimited liability is retained for old societies, while new ones are being registered with limited liability. In the U. P. e. g., in 1945-46, the 'percentage of limited liability societies was 56.5 of the total. In C. P. and Berar, it was 13.3 and in Bombay and Madras the percentages were only 4.6 and 0.4 respectively of the total. The following table indicates the distribution of primary agricultural credit societies in the Indian Union on the basis of liability for three years ending 1953-54.

Year	No of limited Liability Societies.	Percentage to the total.	Unlimited liability Societies.	Total No. of primary agricultural credit societies.
1951-52	30,904	28.7	77,021	1,07,925
1952-53	32,225	28.28	79,403	1,11,628
1953-54	45,628	35.9	81,326	1,26,954

(B) **Area of Operation of a Primary Agricultural Credit Society-** Divergent views were also held on this question. The Officer in charge of the Reserve Bank of India was opposed to the enlargement of the area of the operation of a primary rural credit society on the following grounds :—

(i) When one society serves a group of villages, the fundamental co-operative principle of mutual knowledge and mutual trust will be lost.

(ii) Inter-village jealousy might be added to the existing village factions when one society serves a group of villages.

(iii) A small society serving one village is likely to offer greater training facilities in business methods to its members than a big society serving a number of villages.

(iv) The one-village-one society principle is in accordance with the Indian tradition, as the village had been the unit of co-operative activity in India from time immemorial.

The Reserve Bank later proposed two distinct types of agencies —one an agricultural bank with limited liability covering several villages and making advances to more prosperous cultivators against property or tangible security and other a small Raffeisen society with unlimited liability and limited area working as a unit for the economic salvation of a poor backward population. With the publication of the Report of the All India Rural Credit Survey, there has been a definite shift towards the formation of larger-sized socieites with state partnership. The Committee has, as already mentioned, recommended the adoption of the integrated scheme of rural credit based on the three fundamental principles of (1) State partnership at different levels, (2) full co-ordination between credit and marketing and (3) administration through adequately trained personnel responsible to the needs of the rural population. The scheme recommended by the Committee visualises the formation of larger-sized credit societies based on limited liability or liability by guarantee for the fulfilment of the following requirements of an efficient system of institutional credit at the rural level :—

(i) It should be associated with the policies of the State especially with those aiming at larger production.

(ii) It should be an effective alternative to the private credit agencies.

(iii) It should have adeqate resources and well-trained personnel as distinguished from the weaknesses which are at present the characteristic features of co-operative credit in finance, supervision or administration.

(iv) It should also lend on the security of the anticipated crops.

(v) It should effectively supervise the use of credit and recognize the borrower's needs and interests.

The establishment of a larger-sized credit society for a group of villages with an adequate scope for business to meet the production requirements of cultivators has been one of the features of the Second Five-Year Plan. If new societies are to be established, preference is to be given to larger-sized societies. Several of the existing uneconomic units would either be reorganized or amalgamated to form larger-sized societies. The aim is of course to form

larger societies because as a part of economic planning generally and especially as an essential feature of national extension and community development, all farmers must be brought within the system of co-operative business, credit as well as the rest. There is also the further need for increasing the service capacity of primary societies in regard to their non-credit functions. Though credit functions are vital and important it should be remembered that they are ancillary to the more comprehensive function of initiating and organizing development effort in all sectors of the village community. For this purpose material resources and trained management have to be adequate for the successful discharge of these developmental functions. It is only a bigger unit that can rise equal to the responsibilities thrown on it. In the Second Five Year Plan the target for larger-sized credit societies was fixed at Rs.10400, which was later increased to 11915 by the Planning Commission, Delhi, on the recommendations of the Agricultural Credit Department of the Reserve Bank of India, after taking into consideration plans submitted by several States. The following statement indicates Statewise the number of larger-sized societies that have been finally approved for establishment in some of the states as mentioned below.

States	Proposed by the State	Proposed by the Reserve Bank of India	Finally approved by the Planning Commission.
Part'A' States :			
1. Bombay.	3000	3000	2900
2. Madras.	475	475	400
3. Uttar Pradesh.	10000	1500	1500
4. Orissa.	2028	500	500
5. Punjab.	500	500	500
6. West Bengal.	—	100	100
Part 'B' States :			
1. Mysore.	1000	—	500
2. Rajasthan.	1000	1000	500
3. Hyderabad.	958	958	400

States	Proposed by the State	Proposed by the Reserve Bank of India	Finally approved by the Planning Commission.
Part 'C' States			
1. Ajmer.	25	10	10
2. Coorg.	—	10	10
3. Bhopal.	—	—	100
4. Vindhya Pradesh.	540	200	200

In an earlier chapter how these larger-sized credit societies have been distributed over Part 'A', Part 'B' and Part 'C' States together with the amount of Government contribution to share capital has already been indicated. The following paragraphs indicate in a broad outline a larger-sized credit society in respect of its area of operation, membership, share capital and resources etc. in the State of Madras.

(a) **Area of Operation.** The area of operation is confined generally to five or six villages within a radius of three to five miles.

(b) **Membership.** In determining the area of operation care is taken to ensure at least 500 members and a business turnover of Rs. 2 to 3 lakhs a year.

(c) **Liability.** Liability of members is limited to ten times the value of share capital subscribed by them. If the central bank is a member, its liability will be restricted to the value of shares subscribed by it.

(d) **Objects.** The principal objects of the society are :

(i) To procure and supply to members agricultural requisites like seed, manure, implements, cattle feed, raw materials and appliances to artisans and domestic requirements and other necessaries of life.

(ii) To arrange for the sale of agricultural produce, products of cottage industries, milk and milk products, poultry and poultry products of its members, to their best advantage.

(iii) To own or hire processing plants like hand-pounding chakkies, flour-mills, oil crushers, decorticators, gins etc., and improved machinery like tractors, mechanical ploughs, pumping sets for the benefit of the members.

(iv) To own or hire godowns to provide facilities to members to store their produce for sale at advantageous prices.

(v) To acquire or purchase or obtain on lease land, to conduct practical demonstration for disseminating among the members knowledge of the latest improvements in agriculture in conformity with the advice of the Department of Agriculture.

(e) **Capital :** Capital is raised by means of shares, deposits and loans from central financing agencies.

(i) **Shares :** There are two kinds of shares : A class and B class. The value of A class share is Rs. 5 while that of B class share is Re. 1. A class share can be paid in instalments. B class members are nominal members eligible to obtain loans against the pledge of valuables and do not enjoy other rights of membership. The minimum paid-up share capital of the society is fixed at Rs. 25000, out of which a sum of Rs. 15000 will be raised in the ordinary way and the balance will be contributed by the Government through the State and central co-operative banks. The shares held by a central financing agency can be redeemed at the option of the society.

(ii) **Deposits and Chit Funds :** The society accepts the following kinds of deposits with proper provision in the bye-laws:— (1) Fixed; (2) Recurring; (3) Savings Bank; (4) Home Safe; (5) Chit Funds.

(f) **Loans (Borrowings). :** The maximum borrowing power of a society is fixed at eight times the paid-up share capital plus the reserve fund. The central bank will lend to the society at a rate of interest not exceeding 4 per cent.

(g) **Loans Transactions or Credit Policy.** (i) Short term and medium term credit. Short-term credit is granted to a member for current agricultural purposes and other needs repayable out of the next harvest; while medium credit is granted up to five years. Current agricultural purpose and other needs include (1) purchase

of seed, manure or agricultural implements or other cultivation expenses, (2) purchase of cattle and cattle fodder, (3) payment of kist, (4) purchase of implements and raw material required for cottage and village industries, (5) for carrying on petty trade, (6) for undertaking subsidiary occupations and for purchase of food grains and other necessaries of life. Medium term loans are granted for reclamation of lands, construction, maintenance and development of irrigation sources, purchase of livestock, implements, machinery and transport equipment conducive to agriculture.

(ii) **Maximum amount.** A member is eligible to borrow up to ten times the value of each share held by him subject to a maximum limit of Rs. 2000.

(iii) **Types of Securities for Loans.** Loans are granted on the following types of securities :—

(1) On the security of fixed deposits up to 90 per cent. of the amount of deposit.

(2) On the security of anticipated crops. The value of the estimated output from the standing crop is estimated and a loan up to 40 per cent. is granted. A person in need of a crop loan is required to execute a bond in favour of the society with two sureties. In addition to the bond, the member and his sureties are required to execute an agreement to the effect that until the loan is discharged by the sale of the grain to be harvested, their liability will not cease even if crops failed either wholly or partially on any account, and that the produce of the member shall not be sold except with the knowledge of the Board of Directors.

(3) On the joint and several responsibility of the borrower and his sureties, subject to a maximum of Rs. 500 repayable in 24 months.

(4) On the mortgage of unencumbered immoveable property up to 50 per cent. of the market value of such property.

(5) On the security of agricultural and non-agricultural products up to 60 per cent. of their market value.

(6) On the security of valuables like gold and silver articles or bullion up to 80 per cent. of the market value of such

articles or bullion, subject to a maximum of Rs. 1000 in the case of 'A' class members and Rs. 100 in the case of 'B' class members.

(7) On the pledge of insurance policies of the borrower not exceeding 90 per cent. of their surrender value.

(8) On the pledge of Government and other Trustee Securities not exceeding 80 per cent of their market value.

It may be noted that loans on the security of deposits, valuables or produce are not subject to the credit limit per share or the individual miximum credit fixed in the bye-laws. But it is not clear from what is stated above up to what extent a member can borrow under all types of securities, that is to say, the maximum individual loan limit is not fixed.

(h) **Linking up Credit with Marketing.** :—It is obvious that without its two allies, viz., thrift and marketing, co-operative credit cannot prosper. When loans are made on the security of anticipated crops, the society is required to make effective arrangements for the marketing of the crops of its members if it is to realize the monies lent. The credit society or the neighbouring marketing society will have to provide the borrowers with facilities for storage of produce in order to enable them to hold it over for a better market. Larger-sized credit societies will, therefore, have to construct godowns with the help of Government loans and subsidies. In order to dispense cultivation finance as promptly as possible, a system of forecast loans is evolved under which the maximum credit requirements of each borrower will be assessed at least two months before each season. This credit limit is fixed with reference to the extent of land owned or leased, the nature of crops to be grown, the amount needed for cultivation, the probable yield and repaying capacity of the borrower. On the basis of these statements of borrowers the central financing agency will sanction a temporary cash credit within the maximum borrowing power of the society under its bye-laws. When this limit is fixed for the society, it will be in a position to draw against this limit for issue of loans to its members, subject to the credit limits fixed in each case. The society will then furnish to the central bank a list of members to whom the credits are disbursed, and a formal application is made for a fresh

amount with a view to financing the needs of those that are left over. The central financing agency, after satisfying itself that the loans have been properly disbursed, will replenish the cash credit account by converting the same into short-term loan from time to time.

(i) **Distribution of Profits** :—Provision in made in the bye-laws for carrying 10 per cent. of the net profits to an Agricultural Credit Stabilization Fund. This fund is utilized for the grant of extension of time for short-term loans and converting such loans into medium-term ones, where necessary, when the loans become overdue on account of draught or famine. Provision also exists to the effect that out of the dividend declared by the society on the share held by a central financing agency, the latter receives dividend only at such rates as per agreement between the two institutions, the excess, if any, being credited to the Credit Stabilization Fund.

(j) **Management** :—The management of a larger-sized credit society is vested in a board of directors drawn from all the villages in its area of operation, so that each village has got a representative on the Board. There will be also a nominee of the financing bank and a nominee of Government on the Board as well. The first Board of Directors is nominated by the Registrar of Co-operative Societies under the provisions of its bye-laws. An experienced supervisor from the Co-operative Department is lent to these societies as a paid secretary and the cost of establishment is being subsidized by the Government subject to a maximum of Rs. 100 per month.

(k) **Progress of Larger-sized Credit Societies in the Madras State** :—There were eight larger-sized societies under the Pilot Scheme in the State of Madras up to 30-1-1956 and the following statement indicates their progress between 1-1-56 and 30-11-56 :—

		As on 1-1-56	As on 30-11-56
(1)	No. of Members.	3063	3730
(2)	Paid-up Share capital (in lakhs)	0.60	1.49
(3)	Deposits (in lakhs)	2.18	2.72
(4)	Loans issued. (do)	—	12.80

(N. B. :—Based on information contained in the March Issue of the Indian Co-operative Review, 1957).

In those areas where group multi-purpose societies are already working including a number of villages, in their area of operation, having village credit societies in Bombay, the Scheme for establishing larger-sized societies will mean that the primary societies which were upto now the members of a multi-purpose society will lose their independent existence and have to amalgamate with the multi-purpose society. The progress made in starting larger-sized credit societies has been indicated elsewhere.

(C) **Formation of Multi-Purpose Societies or Conversion of Single Purpose into Multi-purpose Societies** :—The third aspect of reorganization of a primary agricultural credit society was with respect to the enlargement of its scope of functions. One of the reasons why the co-operative credit society in the village has failed is that it has been functioning as a mere supplier of credit and when it was overtaken by the economic depression, it ceased to be a live organization. The crisis brought its own lessons to the fore. It was felt that no real advance was possible unless the co-operative effort at the village level embraced all the facets of the agriculturist's life. " The cultivator could be led along the path of better farming, better business and better living, through an organized effort to deal simultaneously with various disabilities under which he suffers. The Reserve Bank, in its bulletins and circulars, laid great stress on the desirability of village credit societies functioning as full-fledged multi-purpose societies. Starting with credit for current needs, a society may get the old debts of its good members liquidated through a land mortgage bank, introduce better business and secure better monetary return by inducing its members to sell their produce co-operatively, ensure their growing the improved varieties of crops by purchasing pure seeds for them, save on purchases by arranging for the purchase of their needs jointly and at profitable rates on an indent system without incurring any risk or liability, save litigation expenses by effecting arbitration, improve the outturn of the crop by consolidation of holdings, supply of improved implements, supplement the income of its members by inducing them to take up subsidiary industries,

introduce better living measures by adopting bye-laws through common consent which will curtail ceremonial expenditure and remove insanitary habits, provide medical relief and so on."

A village society thus providing a number of services is apt to be in more constant touch with its members than a mere credit society which supplies credit to its members. Such continuous touch goes a great way in increasing in members a lively interest in the working of the society. Absence of such contact in the past has led to apathy, indifference, defaults and disloyalty, with the result that the village society degenerated into a mere loan office. In fact, a multi-purpose society is expected to be an influence for the all-sided socio-economic development of the village. Divergent views were expressed at the time regarding multi-purpose idea when the Reserve Bank published its bulletins, but the growing volume of opinion in the country favoured the idea and multi-purpose societies began to be formed all over the country except in a few provinces like Madras where the ordinary credit society itself was undertaking multi-purpose activities as provided in its bye-laws, but its nomenclature was not changed unlike in other provinces. In the U.P. e.g. the village credit society with unlimited liability was converted into a multi-purpose society with limited liability with one or two objects provided in its bye-laws for undertaking non-credit activities. This is the reason why the U.P. boasts of the largest number of multi-purpose societies among the States in the Indian Union. The multi-purpose aspect gained considerable strength during War years and a number of multi-purpose societies came into existence, but it may be noted that the organization of these societies has been on different lines in different states, and their objects also have varied from province to province and from too modest to too ambitious.

U. P. :—In Uttar Pradesh new Development Co-ordination Plan was put into effect in 1947 under which the Rural Development Department was amalgamated with the Departments of Agriculture and Animal Husbandry. Each district is represented by an officer of each of these Departments. A common cadre of agriculture and co-operative staff of supervisors in the interior of the districts was created and placed under the dis-

trict co-operative officer. A District Development Association has been formed in place of the old rural development association. It consists of the district officers representing various Departments, the Chairman of the District Board Education Committee, a representative of the District Central Bank and a few officers nominated by Government. There is also a Provincial Development Board to assist Government in the economic development of the Province in a co-ordinated way. At the highest level is the Development Council—a Sub-Committee of the Cabinet—, and it takes decisions regarding planning and policy. Under this setup the method of approach to development is co-operative. A compact block of 15 to 20 villages round about each Government Seed Store of the Department of Agriculture is selected for the organization of a multi-purpose society for the execution of development schemes in a co-ordinated manner, the idea being to concentrate intensive work by all the nation-building departments. The selection of a development block with the seed store as the nucleus, is to ensure the provision, of facilities for promoting agricultural production. The multi-purpose societies organized in each block are expected in due course to have a development union which would take over the seed store, build godowns in order to stock implements, charkas, looms, cotton and consumer goods for distribution among members. The multi-purpose society is, therefore, conceived as an effective instrument for carrying on development activities of the nation-building departments of Government such as Agriculture, Animal Husbandry and Industries. The number of blocks selected for development during 1947-48 was 909 and the total number of villages in them was over 14000, in 4000 of which co-operative societies of the old type were already in existence. These were reorganised on the new model and new multi-purpose societies were established in the remaining 10000 villages. An attempt was made to include an adult member of every family of the village in the block. No new multi-purpose society was registered unless about 70 to 80 per cent. of the families of a village had joined it. In order to attract large membership the needs and requirements of a multi-purpose society were given priority to the exclusion of villages in which such societies had not been registered. The main object of a

multi-purpose society has been to increase production of food and cloth and not to lay emphasis merely on credit side, as was the case before 1946. In most of the blocks, development unions of multi-purpose societies have been formed with a view to taking over the seed stores. In 1948, all the 567 Government Primary Seed Stores under the control of the Department of Agriculture were transferred to the Provincial Co-operative Development and Marketing Federation. These would be passed on to the Development Unions when they are in a position to take them over. This meant the placing at the disposal of co-operative multi-purpose societies of seed worth Rs. 2 crores to be managed and controlled by them. Progress on these lines is being continued. Similar development is also reported from Mysore, but the organization is on different lines though the Development Schemes are built around the multi-purpose societies.

Mysore :—In the Mysore state, the structure of multi-purpose societies is pyramidal. The administrative divisions of the State are the districts divided into talukas. The talukas are divided into Hoblis (similar to Firkas in Madras), i. e. to say, groups of villages, in charge of Revenue Inspectors. The structure consists of village, Hoblis, Taluka and District Societies. The village or the Hobli society is the primary society, the taluka society is the intermediary and the district society is the central one. The Provincial Marketing Society at Bangalore is a joint organization of both producers and consumers, and and it supplies consumer goods to the district societies which pass them on through the taluka multi-purpose societies to the primary societies. The multi-purpose co-operative organization in Mysore is conceived as a part of Rural Development Scheme, launched by Government. There is a Central Development Committee with the Minister for Rural Development as the head. There are the District Committees and Taluka Committees presided over by non-officials. A Rural Development Section is created under a Commissioner who controls all the development activities. The village society is a sort of consumer society to cater to the daily needs of the villagers such as kerosene, salt, betelnut, matches. It is affiliated to the Hobli Multi-purpose society which is in turn affiliated to a taluka multi-

purpose society. Credit and marketing functions are also included so as to cover all the aspects of a villager's life. The functions of a taluka multi-purpose society are multifarious and are as follows :—

(1) To encourage, thrift, self-help and co-operation among members.

(2) To advance loans for all agricultural purposes and for purchase of ploughs and milch cattle.

(3) To provide agricultural requisites to members.

(4) To arrange for the sale of members' produce through the neighbouring marketing organization.

(5) To supply domestic requirements of members at the cheapest possible rates.

(6) To encourage subsidiary cottage industries like poultry-farming, dairying etc.

(7) To undertake the construction of houses.

(8) To serve as a milk-collecting centre.

(9) To maintain stud bulls and he-buffaloes in order to improve the breed of cattle.

(10) To encourage farming on co-operative lines so as to bring under cultivation waste lands in and around the village, and to stock fodder for use at the time of fodder shortage.

Constitution :—The chairmen of important village Panchayats in the Hobli or group of villages are nominated as Directors of the Hobli Multi-purpose society. Presidents and Directors of the primary societies in its area of operation and non-official gentlemen also are eligible to become directors of the Hobli Multi-purpose Society.

Finance :—The village panchayats in the circle or hobli are permitted to take shares of and keep deposits in the Hobli-Multi-purpose Society. It also collects shares from individuals, resident in its area of operation and receives subsidies from the taluka development committee.

One of the main objects of the taluka multi-purpose society is to make short-term credit available to the agriculturists at a cheap rate of interest by assessing their creditworthiness. Thus it acts

as a financing agency. It also stocks agricultural requisites and undertakes to sell members' produce. A taluka multi-purpose society normally requires a minimum capital of one lakh of rupees so as to be able to discharge its functions satisfactorily, and it raises the requisite funds by means of deposits and shares, and supplements the same by borrowing from the Government or the Apex Bank at 4½ to 5 per cent. A multi-purpose society works side by side with the older credit societies and in some places their jurisdictions overlap.

The whole scheme is reported to have been organized and controlled by the officers of Government and run by them, with the result that a multi-purpose society is being looked upon as a Government organization, there being no scope left for the exercise of the initiative of the people. The decisive word in the administrative work of the society rests with the Government official. The scheme does not, therefore, appear to have been appreciated by the people nor is it well-suited in a democratic set-up. The whole organization would require to be reorganized in the light of the recommendations of the All India Rural Credit Survey Report.

West Bengal :—The scheme of multi-purpose societies in West Bengal was introduced in 1948-49. The scheme aimed at making every person in the rural areas co-operation-minded and at providing facilities through the Government Departments concerned for improving his lot by meeting all his legitimate needs. Thus the multi-purpose societies in West Bengal undertook activities in different spheres of rural economy and social welfare and included functions relating to:—

(1) **Credit and Finance** :—Creation of funds for meeting the credit needs of members.

(2) **Grow More Food** :—Provision for the supply of pure seed, manure, implements, crop-planning, rotation of crops, redemption of cultivable waste lands.

(3) **Irrigation and Drainage** :—Maintenance of old bundh or tank, introduction of pump irrigation and construction of protective embankments.

(4) **Poultry Farming** :—Supply of improved breeds of poultry.

(5) **Cattle Improvement** :—Provision for distribution and maintenance of stud bulls.

(6) **Cottage Industries** :—Supply of raw materials and improved appliances.

(7) **Sanitation and Health** :—Clearance of water hyacinth, clearance of drains, supply of pure drinking water, arrangements for medical relief and better housing.

(8) **Education** :—Boy's and girl's education and adult education generally.

(9) **Marketing of Produce** :—Marketing of agricultural produce as well as cottage industrial products.

(10) **Stores** :—Bulk purchase and distribution of the necessaries of life.

(11) **Propaganda and Publicity** :—Dissemination of co-operative principles and practice and creation of public opinion against social abuses.

(12) **Settlement of Disputes** :—Reference of member's cases to arbitration and amicable settlement of disputes generally.

Though the scheme of multi-purpose societies in West Bengal is modelled on the U. P. Scheme, a bigger area for a multi-purpose society has been favoured for its obvious advantages. Ten to twelve multi-purpose societies are placed in charge of an organiser-supervisor. The scheme also provides for the appointment of the necessary departmental staff of inspectors and auditors at the rate of one inspector for every hundred societies, and one auditor for every 75 societies. The expression "multi-purpose" has been interpreted so as to include all heterogenous functions which a multi-purpose society is not qualified to undertake. It is the business of Panchayats in the villages to look after sanitation, health and education of the villagers. It is necessary, therefore, to see that the multi-purpose co-operative organization does not undertake all sorts of activities some of which would be beyond its scope, as it is expected to be more practical in operation than theoretical.

Progress of Multi-purpose Societies :—Up to the end of December 1948 there were 1.162 societies with a membership of 1,42,521 souls, and a paid-up share capital of Rs. 12.72 lakhs. Deposits and loans amounted to Rs. 8.29 lakhs and Rs. 4.88 lakhs respectively.

Bombay :—A group multi-purpose society is organized on a limited liability basis in Bombay in a minor bazar place, and its area of operation is restricted to a radius of five miles covering about 5 or more villages. The minimum amount of share capital fixed is Rs. 500. In the case of new multi-purpose societies, the State Government grants a subsidy for a period of five years to meet the cost of management and propaganda. Multi-purpose societies in Bombay are considered as a further stage of evolution of agricultural credit societies. They aim at the provision of short-term finance required by their members for their normal agricultural operations. They are also intended to provide to limited extent intermediate-term finance for financing the purchase of bullocks, carts, and other implements, and to make advances against the pledge of members' produce. In addition to the provision of credit, they aim at supplying such agricultural requisites as seed, manure, feeding stuffs and at organizing arrangements for the joint sale of the members' produce. Thus they try to serve the members in most matters concerning agriculture and are not ambitious so as to include heterogeneous activities unlike in some other States. The multi-purpose societies were also utilised by the State Government as suitable agencies for the distribution of controlled commodities during war years and sometime thereafter.

Madras :—Madras has not taken kindly to the organization of multi-purpose societies as the non-credit activities by the credit societies with provision in their bye-laws which include the following :—

(1) To act as the agent for the joint purchase of agricultural, domestic and other requisites of its members and for the joint sale of their produce.

(2) To purchase and own implements and machinery and to give them for hire to its members and to disseminate the

knowledge of the latest improvements in agriculture, handicrafts and weaving, and encourage its members to adopt them.

The following table indicates the progress made by multi-purpose societies at the end of 1947-48 :—

1.	Number.	...	18 162
2.	Membership.	...	5,77,386
			(Rupess in lakhs)
3.	Deposits :		
	(a) Members	...	21.05
	(b) Non-Members	...	12.34
4.	Working Capital	...	279.28
5.	Loans issued	...	197.24
6.	Loans recoverd	...	141.58
7.	Loans outstanding	...	170.63
8.	Overdues	...	21.46
9.	Sale of goods	...	351.87
10.	Purchase of goods	...	163.13

From the point of view of credit development and in terms of the movement as a whole, this type of multi-purpose activity undertaken by societies has made no effective impression on the socio-economic development of the village. The Report of the All India Rural Credit Survey observes in this context :

" The multi-purpose form is certainly more useful where it succeeds; but there are obvious dangers if the form itself, without the reality, is imposed on a series of villages, as part of some large-scale programme of expansion which does not take account of the relevant local conditions and their variation from village to village...........For very good reasons, there is no possibility of the co-operative system being effective even in the limited context of credit, if it restricts itself to that sphere alone. But it does not mean that any co-operative society, for example, should aim at varied multi-purpose activity, far less at wider rehabilitation. With the degree of participation of the State which we have recommended, and largely on account of the implications of that participation in the form of larger finance and better technica l personnel, we have no doubt that even individual societies—

especially the larger-sized ones-will be able to take up effectively, and not merely on paper, a greater variety of activity than is generally the case with co-operative societies today. Even so, there is neither need nor justification for the primary credit society, in the structure we envisage, to take upon itself the performance of any highly specialized functions or to embark on business undertakings such as marketing and processing which involve a definite element of financial risk......Further, only such additional functions should be assumed by a primary (credit) society as it is in fact capable of discharging knowledgeably, efficiently and in fulfilment of the felt needs of its members. The distribution, as agent, of seeds, fertilizers, agricultural implements, kerosene, etc., is an instance in point. In the framework of a co-ordinated organization, there ceases to be any real conflict between the single-purpose and multi-purpose ideas."

(D) **Progress of Rehabilitation and Reorganisation of Societies, during the post-independence period** :—India achieved her political independence on 15th Agust 1947—a factor which meant more to the co-operative movement than any other aspect of Indian economy. Co-operation came to occupy a significant place in the development plans of all the component parts of the Indian Union as well as the Centre. An eventful development bearing on the course of the co-operative movement was the partition of the country immediately after the achievement of independence. This had serious repurcussions on the co-operative movement in border states like the Punjab, Bengal and Assam. In the second place, the partition of the country brought in its turn a serious shortage of foodgrains which called for an all-out drive to increase the production of food and its equitable distribution by the combined efforts of both the people and the Government. Thirdly, the War-years had seen the spectacular growth of the co-operative movement and improvement in several aspects of co-operative activity. The credit sector continued to hold a predominant position, credit societies forming 66 per cent. of the total number of societies. At the same time the non-credit activities also were forging ahead. The following table indicates the position of co-operative credit societies at the end of 1947-48 :

(1)	No. of Societies.	85,200
(2)	Membership (in lakhs)	34.82
(3)	Owned funds. (do)	Rs. 1134.95
(4)	Percentage of owned funds to working capital	47.9
(5)	Borrowed Funds (in lakhs)	
	(a) Deposits from members.	174.01
	(b) Deposits from non-members.	130.28
	(c) Other borrowings.	947.45
(6)	Working Capital (in lakhs)	2386.69
(7)	Loans issued ,,	1045.14
(8)	Loans recovered ,,	815.39
(9)	Outstandings ,,	1601.55
(10)	Overdues. ,,	393.23
(11)	Percentage of Overdue loans to outstandings.	24.5
(12)	Non-credit activities.	
	(a) Sale of goods to members.	783.16
	(b) Purchase of members' products.	404.33

It will be seen from the above statistics that members' deposits formed a small portion, being about 7.7 percent of the total working capital. A serious defect in the working of agricultural credit societies is the absence of an element of thrift, and this is reflected in the small proportion of deposits which were continuously on the decline. Fresh finance and loan outstandings showed a rise over preceding year's figures. Owing to some increase in the cost of cultivation and of living the agriculturists on the margin of subsistence felt the need for fresh finance to a greater extent than before, the rise in agricultural prices catching up with the cost of living and cultivation expenses. A major portion of loans advanced by societies was for agricultural operations for a short period. The position in regard to repayment of loans improved and defaults showed a tendency to decline. Overdues formed 24.5 percent of the loans outstanding. The data in the table above indicate that agricultural credit societies had taken up non-credit activities on an increased scale. The distribution of controlled commodities such as kerosene, sugar, foodgrains and cloth, formed a substantial part of the business. The following table

gives statistics relating to fresh finance, recoveries, loans outstanding in a few of major States at the end of 1947-48 :—

Name of the State	Fresh advance	Recoveries.	Outstandings.	Overdues	Percentage of overdues to loan-outstandings.
		(figures in lakhs)			
Madras.	440.01	313.59	555.94	98.83	17.9
Bombay.	222.08	183.41	289.27	77.87	27.0
U.P.	33.10	28.84	45.54	9.83	21.8
C.P. & Berar.	76.94	61.99	86.06	12.38	13.9
East Punjab.	45.80	44.90	169.86	41.95	20.4
Assam.	0.87	0.64	4.00	2.10	50.2

A brief account of the further progress made in rehabilitation and reorganization work in different provinces is attempted in the following paragraphs.

(1) **West Bengal.** The financial structure of the movement, particularly of the primary credit societies had remained shaky on the eve of partition of the province. As the result of the partition its area was reduced to one-third of the original area. Large funds of the Provincial Co-operative Bank which were due from the central banks and the societies situated in East Bengal (Pakistan) became locked up. The confidence of the investing public was shaken and the Government had to go to the rescue of the Bank by guaranteeing the collection of Rs. 124.61 lakhs , representing the good investments of the Bank in institutions in East Bengal, the total guarantee being split up in 12 instalments, viz., Rs. 14.61 lakhs in the first year and Rs. 10 lakhs every year for successive 11 years. Although this timely assistance saved the Bank from total collapse, which seemed imminent yet the financial position was greatly impaired as the loans due from societies in East Pakistan did not bear interest which the Bank had to pay to its own depositors. Thus the problem of rehabilitation became complicated, but in

one respect the problem of rehabilitation was easy with the reduction in the number of societies and central banks and fresh scheme of rehabilitation was rendered possible. This was taken up later under the guidance of the Agricultural Credit Department of the Reserve Bank of India.

(2) **East Punjab.** The entire structure of the co-operative movement was thrown out of gear by the partition of the Province in 1947. The Province retained 70 central banks and banking unions, 11664 agricultural credit societies and 3328 non-agricultural societies out of 119 central banks and banking unions, 20743 agricultrual societies and 6121 non-agricultural societies in the undivided Punjab. Though the Co-operative movement was hit hard as elsewhere by the economic depression, it did benefit by the rise in agricultural prices during the War and thereafter, and rehabilitation was not, therefore, the pressing need. But partition brought in its train dislocation all round. Records of several societies and central banks were destroyed in the distrubances that followed partition. Owing to large exodus there was also dislocation in the work of the staff employed. On top of this large funds of central banks and societies situated in East Punjab were locked up as deposits in the Punjab Provincial Co-operative Bank at Lahore. Similarly the work of the Co-operative Department was also serioulsy affected. An agreement was later arrived at between the Dominions at Cabinet level for mutual refunds of deposits and shares held and it was further decied to appoint a committee to watch the implementation of the agreement. As the Apex Bank was situated at Lahore, the question of organizing an Apex Bank was taken up and it was established at Simla in 1949.

(3) **Assam.** At the end of the War, the co-operative movement is Assam was absolutely in a moribund condition. A new scheme was introduced by Government to revive the movement. A new setup comprising primary and central trading institutions was organized in place of co-operative societies. A new apex Bank was started to serve the movement through its Branches, at the district centres. The cheif features of the scheme of development were the insistence on adoption of the uniform bye-laws of a comprehensive nature and concentration on multi-purpose trading co-operatives, the overall control resting with the Government.

(4) **Central Provinces and Berar.** With the operation of the Debt Conciliation and Debt Relief Acts, all the sources of credit to the agriculturists dired up. Agriculturitsts who were not members of co-operatives found it difficult to obtain funds for their cultivation needs. In order to meet the demands of such agriculturists a scheme was drawn up in 1947 under which central banks were permitted to advance crop loans directly to agriculturists on the security of their lands, who were enrolled as nominal members. Six of the Central Banks were permitted to do this business and till the end of January 1949, 860 individual farmers were financed to the extent of 3.54 lakhs. Reorganization of weak and uneconomic societies by their amalgamation was also undertaken.

(5) **Bihar.** The rehabilitation work was started in 1942 and completed in 1947. Most of the central Banks resumed their normal working as they were enabled to dispose of their land and other properties in their possession at good prices and thus realise their dues speedily. A scheme of expanding the activities of the Provincial Co-operative Bank on the lines of the Credit Agricole D' Egypte was drawn up as already alluded to. Under this scheme arrangements were made to finance individual agriculturists, whether members of primary credit societies or not, for the purchase of seed, manure, implements and for other cultivation expenses. The Bank undertook the distribution of manure, fertilizers and seeds etc. to the agriculturitsts through the reconstructed central banks. It also made advances to the agriculturists through the same channel. Such advances amounted to Rs. 9.62 lakhs during 1947-48. The Bank enjoyed a monopoly in the distribution of fertilizers in the Province and did good business during 1948-49. The total value of fertilizers and seeds distributed amounted to Rs. 95.29 lakhs and it earned a gross profit of Rs. 5 lakhs. The amount of commission earned by central banks in the business was Rs. 1.73 lakhs. The total number of depots opened for the distribution of fertilizers stood at 114. These activities helped the Provincial and Central Banks in the Province to earn decent profits and thereby balance their budgets. They also undertook the distribution of controlled commodities. Although the financing agencies have been enabled to make both ends meet because of their trading activities, nothing was done to fill the gap created by the collapse of the movement.

(6) **Orissa** : Nine out of the thirteen banks under rehabilitation were solvent in 1948 and one more bank was expected to be solvent soon. Proposals for rehabilitating the remaining three more banks were under consideration of Government, The management of all the thirteen banks was with the Registrar, Co-operative Societies, in the province. In order to co-ordinate their working an apex bank was organized and it has commenced working since 1948.

(7) **Bombay.** In addition to the examination of debts, steps were taken to accelerate the pace of the movement by enlarging the scope of existing societies and by organizing new ones for different purposes. With the extension of the provisions of the Agricultural Debtors' Relief Act to the whole of the Province, the need for providing credit to adjusted debtors for raising crops became all the more urgent because of the reluctance of the money-lenders to risk their funds any more. The question was whether it was necessary to organise State-controlled and State-aided Agricultural Credit Corporation, as recommended by the Gadgil Sub-Committee or to entrust the work to the co-operative movement. The Government of Bombay appointed a Committee under Sir Manilal Nanavaty to consider how far the co-operative institutions in the Province could finance all the credit-worthy agriculturists on the lines recommended by the Gadgil Sub-committee. If they were accorded the same concessions and privileges as were recommended for the Corporation, the Nanavati Committee after reviewing the working of the co-operative movement concluded that there was no need for the setting up of an Agricultural Credit Corporation and that the Co-operative movement could provide finance to a fairly large number of creditworthy agriculturists, if it was suitably reorganized. Towards that end, the Committee made various suggestions for improving the efficacy and utility of the societies from two main objectives, that they might absorb as many new members as possible consistent with safety and provide loans to the agriculturists at a reasonably low rate of interest, viz., 6¼ per cent. The Committee also opined that all primary societies should be multi-purpose societies and develop non-credit activities according to their capacity to handle the same. Primary societies were accordingly advised to make provision in their constitution for enrolling as nominal members those who were not

already members of any society for advancing loans for cultivation purposes directly to them. The central and provincial banks were expected to advance loans to the societies at 4 per cent. which in their turn would advance loans to their members at 6¼ per cent. Exception was made in favour of nominal members who were creditworthy by charging them 7-13-16 per cent interest for raising crops. As a result of these measures advances in provincial and central banks expanded considerably. The State Government also decided to accelerate the pace of the movement so as to cover withing seven years 50 per cent. of the villages and 30 per cent. of the population in the province. They also agreed to grant subsidies to rural credit societies up to 2½ per cent of their working capital to meet the cost of the secretaries employed on certain conditions. As regards the Provincial and Central Banks, the Committee made many useful recommendations for amending their constitution and improving their working, so as to enable them to play the role properly in the new set up which was designated as the Integrated Scheme of Credit. The details of the scheme and the recommendations of the Committee having a bearing on the reorganization of central financing agencies, will be discussed in the next chapter.

(8) **Madras.** In Madras, along with rectification schemes the system of controlled credit was introduced under which credit and marketing were linked up in most parts of the Province. As a result the measures of reorganization, the percentage of arrears to demand which was 55 in 1937-38 was reduced to 21 in 1947-48. During 1947-48, 940 rural credit societies undertook the distribution and purchase of rationed and controlled commodities, their purchases and sales amounting to Rs. 91 and Rs. 103 lakhs respectively. Again, plans were also drawn up to cover 50 per cent. of the villages and 30 per cent of the rural population within five to ten years by organizing new societies and enlarging the sphere of the existing ones. Great progress was also recored in the organization of consumers' stores, weavers' societies, industrial co-operatives, milk supply societies etc. From what has been stated, it will be seen that the progress of rehabilitation and reorganization of societies had reached different stages in different provinces. In Madras and Bombay the movement was developed

so as to become a live instrument to serve the varied ,needs of the people, while in Assam, Bengal, East Punjab the movement was not yet out of the wood. In C.P. and Berar, Bihar and Orissa, the movement was reorganized and saved from total collapse. Though the progress of rehabilitation and reorganization was in evidence in a few areas, the general picture remained somewhat sombre, calling for the adoption of energetic measures and keeping watchfulness in subsequent years.

Progress of the Movement during the early years of the Post-Partition and Post-Independence Period :—The period of seven years following the partition of the country and achievement of political independence is associated with developments of great significance in terms of the co-operative movement as a whole. Apart from general expansion in all sectors, it was characterized by greater diversity of functions. It played an important part in the solution of two major problems, viz., the augmentation of food production and the rehabilitation of displaced persons. The full-scale development of the multi-purpose idea was in evidence as could be judged from the increase in the number of multi-purpose societies in most of the States. An important feature of the co-operative movement during the period was that it was geared to the requirements of national, economic policy. In contributing to the fulfilment of the the Government's policy of increase in agricultural production, the movement played no mean part both in the provision of credit and supply of agri--cultural requisites to the agriculturists. Specific types of co-operative institutions directly concerned with agricultural output like joint farming, land colonization, lift irrigation societies came into being. A shift in the lending policies of land mortgage banks was also in evidence towards the same end through financing the land improvement schemes. The First Five-year Plan laid great stress on progress in the agricultural sector and an important role was assigned to co-operatives in the new setup envisaged. In the non-agricultural sector also various types of co-operatives were ushered into being for the benefit of disadvantaged persons like weavers and other cottage industrial workers. Thus the movement made great strides in step with one or the other of Government's policies, but it may be noted that it was not totally

free from certain unsatisfactory features. There was a noticeable setback in the consumers' co-operative movement and in other non-credit activities undertaken by credit societies in the wake of decontrol and derationing of essential commodities. A disquieting feature was the unsatisfactory overdue position of the agricultural credit societies brought about partly by the failure of monsoon in some parts of the country and the downward trend in agricultural prices and partly due to a considerable rise in fresh finance made as a result of the various schemes of a reorganization of societies. The progress made by agricultural credit societies and multi-purpose societies ending 1953-54 is given in the tables attached at the end of this chapter, while Appendix I gives the details of their operations, statewise, at the end of the same period. The distribution of societies in the States continued to be uneven, nearly 50 per cent. of their total number being concentrated in the four States of U.P., Andhra, Bombay and Madras. A large proportion of these societies continued to be on unlimited liability basis as already indicated. Fairly large conversions into limited liability societies were noticed in Bihar, U.P. and Himachal Pradesh. New societies formed were on a limited liability basis in U.P., while in Bombay, a substantial number of multi-purpose societies with limited liability were formed. There was a large increase in the number of societies registered in many of the States but the percentage of villages covered fell short of the target of 50% suggested by the Saraiya Committee. It is only in the States, of Bombay, Punjab, Delhi, Coorg and Ajmer, that the target was reached. In Madras it was 49.4. In other States like Uttar Pradesh, Madhya Pradesh, West Bengal, Madhya Bharat and Himachal Pradesh the percentage was fairly high as could be seen from the following Statement.

(a)

Name of the State.	No. of Villages.	No. of Villages touched by agricultural credit societies.	Percentage of of villages covered.
(1) Delhi.	308	247	80.2
(2) Coorg.	279	201	72.1
(3) Bombay.	34,725	23,946	69.0
(4) Ajmer.	707	437	61.8

Name of the State	No. of Villages.	No. of Villages touched by agricultural credit societies.	Percentage of villages covered.
(5) Punjab.	15147	8363	55.2
(6) Madras.	19491	9623	43.2
(7) Jammu & Kashmir.	6520	2750	42.0
(8) Andhra.	17659	7625	43.2
(9) West Bengal.	34249	12000	35.0
(10) Uttar Pradesh.	111722	38350	34.3
(11) Madhya Pradesh.	48444	16000	33.2

There has been, however, a change in the position indicated by the above statement owing to reorganization of States being given effect to from 1st November 1956. The details of this change are not yet available.

(b) **Membership** :—The membership of societies showed a considerable rise from 34.82 lakhs in 1947-48 to 58.49 lakhs in 1953-54, indicating an increase of nearly 1.5 million. Substantial increases in membership were noticeable in States like Uttar Pradesh, Madras, Andhra, Bombay, Bihar and Jammu and Kashmir. Separate statistics showing the proportion of population touched by these societies except in Bombay where the target of bringing 30 per cent. of the rural population has been reached, are not available.

(c) **Working Capital** :—Working capital increased from Rs. 2,386,69 lakhs in 1947-48 to Rs. 5,440.84 lakhs in 1953-54, showing an increase of Rs. 3,053.85 lakhs. This increase was largely brought about as a result of substantial increase in other borrowings since there was no sizable increase either in the owned funds or the deposits held by societies, as the table given at the end of the chapter indicates. This means that the societies have failed as thrift institutions and the effort towards promotion of thrift and savings had largely proved abortive.

(d) **Distribution of Working Capital** :—The statewise distribution of working capital per society and per member is given

in the following table which discloses wide disparity from state to state :—

Name of the State.	Average Working Capital Per Society.	Average Working Capital Per Member
	Rs.	Rs.
1. Bombay.	14600	175
2. Coorg.	10886	88
3. Andhra.	9150	104
4. Madras.	7443	78
5. Saurashtra.	7602	172
6. Punjab.	5386	120
7. Travancore-Cochin.	5300	36
8. Uttar Pradesh.	1780	53
9. Madhya Pradesh.	3617	161
10. Pepsu.	4104	149
11. Madhya Bharat.	2975	135

N. B. These figures are for 1953-54.

It will be seen from the above statement that Bombay contiuend to lead the rest of the States with the highest working capital per society and per member. Amongst the major States the average working capital per society stood as low as 1780 in Uttar Pradesh, as it had the largest number of societies. In interpreting these figures, it may be noted that high averages were generally found in States where the membership of societies was relatively small. Consequently, in States like Madras and Andhra, where societies have a large membership disclosed a comparatively low working capital per capita. Bombay claimed not only large membership per society and also high working capital per capita, because the level of financial transactions in Bombay was sufficiently high.

(e) **Loans and Advances :**—On account of expansion in business transactions and increase in the number of societies, fresh finance rose from Rs. 1045.14 lakhs in 1947-48 to Rs. 2964.36 lakhs in 1953-54, indicating an increase of Rs. 1919.22 lakhs. Of the total fresh advances, aggregating Rs. 2964,36 lakhs, the

States of Bombay, Madras and Andhra alone accounted for 57 per cent. of the total. Bombay continued to maintain its lead both in respect of total volume of finance provided as well as the average amount per society. The average loan advanced per society in Bombay was Rs. 9,346; the corresponding figures for some of the States were :—Coorg (5711), Andhra (5343), Madras (3404), Punjab (3070) and Madhya Pradesh (2073). There was a steep rise in the amount of fresh finance made to the agriculturists in Uttar Pradesh, West Bengal, Madhya Pradesh and Punjab, the four latter states contributing Rs. 2,67 lakhs. Along with increases in fresh advances, there were also increases in overdues which constituted 29 per cent. of the loan outstandings in 1953-54. Even in the co-operatively advanced States of Bombay, Madras and Andhra, the percentages were as high as 39, 29 and 31 respectively, though a large percentage of such overdues was of short duration.

(f) **Purpose and Period of Loans** :—Classified according to period of repayment, bulk of loans was generally for a period of one year. A substantial portion was also for medium-term purposes, ranging from 1 to 3 years, particularly in Madras U. P. and Punjab and to a fair extent in Bombay, Andhra, Madhya Pradesh and Orissa. Loans exceeding three years were heavy at Rs. 476.26 lakhs in the States of Madras and Andhra. Medium-term resources available with societies and medium-term borrowings from central financing agencies were still limited and efforts were made by Governments to disburse 25 crores per year for medium-term agricultural loans,—which was the target set in the First Five-Year Plan. Bulk of these loans continued to be made for cultivation expenses.

(g) **Security for Loans** :—As regards security for loans, land was relied upon as security in the case of West Bengal, Hyderabad, Madhya Pradesh, Saurashtra and Bombay. In the three latter cases either actual mortgages were taken or advances were made on the strength of declarations made under certain sections of the Co-operative Societies Act, creating a compulsory charge on the land owned by the borrowers. In States like Uttar Pradesh, Himachal Pradesh, Punjab, Pepsu, Delhi, Rajasthan and Ajmer, loans were made, on the personal security of one or two members. In States like Madras, Andhra, Orissa, Coorg and Travancore-

Cochin, tangible security such as jewels, deposits, immoveable property etc. was also taken as security for loans, though the bulk of the loans was made on personal security. A complete shift from land to produce of land as an exclusive form of security has not been noticed anywhere, but the system of crop loans based on the cost production per acre, repayments of which are linked to the harvesting season was in vogue in Bombay. Such loans were originally confined to adjusted debtors coming under the ambit of the Agricultural Debtors Relief Act. But the principle of linking crop loans to agricultural production was later adopted under the integrated system of credit under which finance was made available for raising crops to all the credit-worthy agriculturists in the State. The system in vogue will be referred to elsewhere. The system of crop loans has been, it is understood, responsible for a considerable rise in loan operations of agricultural credit societies in the State.

(h) **Interest Rates on Lendings** :—Madras and Andhra had comparatively lower rates of interest on loans, charged to members of agricultural credit societies at $6\frac{1}{4}$ per cent; while the usual lending rate in Bombay was 7--13/16 per cent. In States like Uttar Pradesh, Assam, Himachal Pradesh, lending rates to ultimate borrowers ranged from 9 to $12\frac{1}{2}$ per cent. but it was possible to reduce the rates in areas where large funds were made available by the Reserve Bank of India, for financing the seasonal agricultural operations or for the marketing of crops. In some states, the organization of apex banks and other intermediary financing agencies resulted in the reduction of rates.

(i) **Non-Credit Activities** :—As a result of the removal of controls over foodgrains and other essential commodities and derationing, a landslide was witnessed during the period in the volume of non-credit business undertaken by agricultural credit societies, as could be seen from the table attacehed at the end of the chapter.

2. As regards Multi-purpose Societies, it will be seen from data given in the table at the end of this chapter that the number of multi-purpose societies increased from 18162 in 1947-48 to 48659 in 1953-54, of which Uttar Pradesh accounted for more than half

the number of societies. Their membership increased from 5.77 lakhs to 24.79 lakhs. There was a cosiderable rise in the amount of deposits from Rs. 33.39 lakhs to Rs. 199.58 lakhs and of working capital from Rs. 279.28 lakhs to Rs. 1691.18 lakhs. There was a similar rise in the amount of loans issued, loans repaid and outstandings. But performance in respect of repayment was unsatisfactory and overdues were continuously on the rise from Rs. 21.64 lakhs to Rs. 207.57 lakhs. There was, however, a considerable decline in the volume of non-credit activities owing to derationing and decontrol of essential commodities during the period.

3. **Grain Banks** :—Amongst the co-operative institutions at the village level may be mentioned co-operative granaries or grain banks. Most of the cultivators who are poor and illiterate have to sell their grain immediately after the harvest, when prices are at their lowest in order to pay rent, land revenue assessment, sowkar's dues etc. They are unable to keep on hand sufficient grain to maintain their families until the next harvest. They have to borrow grain in the meanwhile at heavy rates of interest from sowkars. Prices almost begin to rise some three or more months after the harvest is reaped, but the profits always go to the middleman. If they are enabled to hold up their produce for three months or so, they could sell their produce at better price. They would thereby sell less and keep on hand a stock enough to carry them over to the next year, without resorting to sowkars. The objects of a grain bank are, therefore, first to enable agriculturists to tide over the period of low prices and to sell their harvest at better price, and secondly, to make advances of grain at reasonable rates to the needy agriculturists during the off-season for their maintenance. A grain bank is a simple affair and is run on very much the same lines as a credit society in a village is managed. The only point to remember is with regard to the careful storage of grain. It must be kept in some insect-proof and rat-proof receptacle. There are several methods of storing grain, but the method chosen must obviously suit the local situation, The rates of interest charged by a grain bank on its lendings are **sawai,** i. e. 25 per cent. In the States of Bengal and Bihar, these granaries are known as 'Dharmagolas'. The advantages of a grain bank are :—

(1) It is established in each village from its own resources.

(2) The contribution of each individual being only a small fraction of the annual yield of grain, it is not likely to cause any hardship.

(3) There is no scope for excessive borrowing by a member unlike in the case of an ordinary credit society.

(4) As a grain bank supplies grain to be used as food to the needy cultivators the latter would be enabled to get better prices for their crops as they acquire capacity to wait.

(5) The reserve stocks of the grain bank will be the property of the whole village and would remain as a sort of a buffer stock to be used in case of emergency like famine etc. To that extent, a grain bank relieves the Government of its responsibility for assisting the people during famine and scarcity, if such grain banks are established all over the country.

(6) During scarcity and famine transport of grain to remote villages not served by communications presents some difficulty. The establishment of grain banks is calculated to overcome this difficulty.

In the Bombay State, some grain depots came to be organized in the Thana and Nasik Districts, in order to provide credit to the agriculturist in the backward areas, and these were under the management of the Revenue Department. They were later registered under the Bombay Co-operative Societies Act. The number of grain banks in the Bombay State at the end of 1953-54 was 339. Hyderabad had the largest number of grain banks at 6938. Separate statistics showing the operations of grain banks are not available for years preceding 1952-53, as they were included in agricultural credit societies. The table given at the end of this chapter gives statistics relating to the operations of grain banks for 1953-54.

3. **Review of Progress of Agricultural Credit and Multi-purpose Societies in Different States :**—A brief review of the progress and development of agricultural credit and multi-purpose societies in some of the major states is attempted in the following paragraphs : Tables indicating the progress made

for the preceding three years ending with 1953-54 are herewith attached at the end.

Bombay. (a) Agricultural Credit Societies :—The number of societies rose to 10595 at the end of 1953-54 and membership stood at 8.86 lakhs. The target fixed for bringing 50 per cent. of the villages and 30 per cent. of the rural population within the ambit of reorganized societies had been reached. A more ambitious programme of touching 85 per cent. of the villages and 45 per cent. of the rural population before the end of the Second Five-Year Plan has been chalked out. There was a statisfactory increase in the amount of owned funds mainly accounted for by a rise in the amount of paid-up share capital. Membership, however, showed a declining trend. There was also a noticeably satisfactory rise in the amount of fresh finance and loan outstandings, but the overdue position had deteriorated as the percentage of overdues to loan outstandings stood at 31.

(b) **Multi-purpose Societies :**—There were 4212 societies with a membership of 4.53 lakhs. The policy .of converting the existing thrift and credit societies into multi-purpose societies and of registering multi-purpose societies in preference to thrift and credit societes was continued The average membership stood at 109. The working capital, loans outstanding and fresh advances had registered appreciable increases. A disquieting feature was the rise in the percentage of overdues which stood at 23.3. The societies also helped their members in undertaking subsidiary industries. A few well-managed societies constructed their own godowns for storing agricultural produce.

(2) **Andhra :**—Andhra became a separate state on 1st October 1953. At the end of 1953-54 there were 6485 agricultural credit societies with a membership of 5.73 lakhs. The percentages of villages touched and rural population served were 43 and 16 respectively. The societies had a paid-up share capital of Rs. 82.97 lakhs and reserve amounting to Rs. 69.32 lakhs. Borrowings from central banks aggregated Rs. 421.19 lakhs. Deposits were meagre at Rs. 19.85 lakhs. The working capital

stood at Rs. 5.93 crores. Fresh advances amounted during 1953-54 to Rs.. 346.48 lakhs, of which more than 75% had been utilized for agricultural production. A disquieting feature was the unsatisfactory overdue position, the percentage of overdues being 31.

(3) **Madras** :—As a result of the partition of the State the number of societies came down from 17189 to 10282 on 30th June 1954. They covered 49 per cent. of the villages and touched 21 per cent. of the total population. They had a paid-up share capital and reserves of Rs. 130.15 lakhs and 139.50 lakhs respectively. Members' deposits showed a declining trend and were meagre at Rs. 18.33 lakhs. Borrowings from central banks stood at Rs. 460.72 lakhs. Fresh loans amounted to Rs. 349.96 lakhs, the bulk of which was utilized for production, sizeable amount being utilized for other purposes as well such as purchase of implements, redemption of petty debts etx. The overdue position was unsatisfactory at 31 per cent. of the demand.

Multi-purpose Societies :—The scheme of converting agricultural credit societies into multi-purpose societies was given up in 1953 and a few reorganized societies which numbered 92 (in the composite State) continued to function as multi-purpose societies. Even after making allowance for separation of Andhra, there was an all-round decline in their number, membership, working capital, business turnover and the extent of non-credit activities. This goes to show that multi-purpose societies have not been successful in Madras.

(4) **Uttar Pradesh. (a) Agricultural Credit Societies** :—Their number rose to 32,290 at the end of 1953-54 indicating an increase of nearly 5000 societies. Membership also increased to 10.90 lakhs. The working capital stood at Rs. 5.75 crores. There was also a satisfactory increase in the amount of such advances, which amounted to Rs. 3.18 crores during 1953-54. The loan outstandings stood at Rs. 4.07 crores, of which nearly 20 per cent. was overdue.

(b) **Multi-purpose Societies** :—Compared to the other States Uttar Pradesh had the largest number of multi-purpose societies. There were at the end of 1953, 5429, 685 societies with a membership of one million. Their working capital stood at Rs. 5.07

crores, the average working capital per society being relatively small at 17,09. The average working capital per member was also low at Rs. 50. The overdue position was unsatisfactory at 20 per cent. of the loan outstandings. There was also a decline in the volume of non-credit activities. Inadequate finance and absence of proper arrangements for storing members' produce are reported to be responsible for shrinkage in the volume of non-credit activities.

(5) **Punjab :**—Punjab also maintained satisfactory progress, there being an all-round increase in the number of societies, membership, volume of working capital and fresh advances made.

(6) **Madhya Pradesh :**—There was a staisfactory increase not only in the number of new societies organized but also in the volume of business turnover of the existing ones. Fresh advances showed an increase of more than a crore of rupees, but multi-purpose societies in the State were on the decline.

(7) **Orissa (a) Agricultural Credit Societies :**—Orissa also recorded a satisfactory rise in the number of societies, their membership, fresh advances and loan outstandings.

(b) **Multi-purpose Societies :**—Noticeable progress was recorded by multi-purpose societies in the State. The average working capital per society was high at Rs. 30000. Most of thr societies had opened separate stores sections and were also undertaking the marketing of members' produce. A few of them undertook activities like oil-pressing, poultry-breeding, crop-protection etc.

(8) **West Bengal**. (a) **Agricultural Credit Societies**:—Some improvement was noticeable in the number of societies, their owned funds and loan transactions. A disquieting feature was the amount of overdues which were high at Rs. 36.28 lakhs out of total loan outstanding of Rs. 112.71 lakhs.

(b) **Multi-purpose Societies**. Established during the period of controls, most of these societies ceased working with the removal of controls. There was a decline in the number of societies as well as their membership. There was also a shrinkage in their loan operations. Some of the societies are reported to be adjusting themselves to the new conditions by undertaking new lines of activity.

(9) **Hyderabad:**—Grain banks are functioning in a few States like Bombay, Orissa, Bihar and Hyderabad, which had the largest number of grain banks. Their number came round to 6938 in 1953-54. Their working capital, fresh advances, and loan outstandings at the close of 1953-54 were Rs. 145.90 lakhs, Rs. 17.39 lakhs and Rs. 66.12 lakhs respectively. The decline in the number of grain banks is due to the fact that all moribund institutions were wound up under the orders of the State Government. Advances were made in kind, levying interest at 20 %per annum, but if the loan was used during the harvesting period, a lower rate of interest, viz., 10 per cent was charged. The grain was generally stored in rented godowns.

(10) **Orissa**:—Orissa had 248 grain banks at the end of 1953-54, which were organized with the active assistance of the State Government. Under the scheme each grain bank owns a "gola-house" where foodgrains are stored. Grain-gola co-operatives are being formed in each Gram Panchayat and the State Government gives grants to these societies through the Gram Panchayat for the construction of the gola-house. In addition each grain-gola co-operative is given an initial advance of 1000 maunds of paddy to start with. Grants are also being given to societies operating in the agency areas and to those functioning for the benefit of backward classes.

4. **Classification of Societies at Audit**:—An efficient system of periodical audit is necessary, if the standard of efficiency in the working of societies is to be maintained and propensities for mal-practices by office-bearers checked. The position in this respect was unsatisfactory, as a large percentage of societies in some of the states remained to be audited and classified at the end of 1953-54. The percentage of unaudited societies in Pepsu was as high as 75.1, in Jammu and Kashmir it was 40.9 and in Vindhya Pradesh it was 70.0. The Rural Credit Survey Report recommended (1) that the audit staff should be considerably strengthened, (2) that audit and inspection should be in the hands of Government, (3) that the co-operative institutions should be exempt from payment of audit fees during the earlier years of their existence and (4) that a co-operative manual should be drawn up and there should be uniform standards of audit classification.

Except in the States of Coorg and Bombay, the percentage of 'A' class societies in most of the States was very small, being less than 5 per cent of the total number of societies. 'A' and 'B' class societies formed the majority only in the two abovementioned States. The bulk of the societies were classed under 'C'; the percentages of 'C' and 'D' class societies in some of the States were very high at the end of 1953-54, as the following table indicates :—

State	C	D	Total
Madhya Pradesh	84.2	6.3	90.5
Andhra	76.3	5.7	82.0
Madras	76.1	4.8	80.9
Orissa	65.7	17.6	83.3
Uttar Pradesh	52.3	26.1	79.6
Himachal Pradesh	80.4	0.54	84.58
Hyderabad	69.6	8.2	77.8
Bombay	22.2	10.2	32.4
Coorg	7.9	0.50	7.59

5. **Societies under Liquidation.** At the end of 1953-54 there were 12,908 socieites in liquidation, their compostion being 62 central societies, 8,556 primary agricultural societies, and 3990 non-agricultural societies. The greatest number of liquidated societes was in Hyderabad, the number being 2406. An all-out effort is needed to tone up the working of the dormant societies which are classed in 'C' or 'D'.

6. **Evaluation of the Agricultural Credit and Multi-purpose Movement**:—Barring one or two States in the Indian Union as exceptions, the data presented in this chapter go to confirm the following conclusions of the Credit Survey Committee with regard to the credit and multi-purpose societies:—

(1) The village credit society is the weakest link in the chain of the co-operative rural structure. It satisfies none of the requirements of good co-operation or sound credit. It has failed to promote thrift and savings. It has also failed to provide for a system of adequate, prompt and productive credit. It does not stipulate much less supervise productive purpose; on account of emphasis on ownership of land as the basis of credit the society has tended to neglect punctual recovery of loans from the periodical income of the borrower.

OPERATIONS OF AGRICULTURAL CREDIT SOCIETIES

Name of Stat	No. of Societies	Member-ship	Owned Funds	Deposits from members	Deposits from Non members	Other Borrow-sings
1	2	3	4	5	6	7
			Rs.	Rs.	Rs.	Rs.
1. Andhra	6,485	5,73,426	152.29	88.94	10.91	421.19
2. Assam	749	19,279	5.71	0.80	0.26	3.76
3. Bihar	10,184	3,60,527	45.45	10.40	9.79	54.49
4. Bombay	10,595	8,85,909	651.52	77.62	53.03	764.72
5. Madhya Pradesh	9,492	2,13,354	64.10	19.04	1.10	259.05
6. Madras	10,282	9,80,161	269.65	18.33	16.65	460.72
7. Orissa	5,078	1,82,572	50.14	0.69	0.36	96.53
8. Punjab	8,506	3,82,530	184.22	70.51	49.79	153.65.
9. Uttar Pradesh	32,290	10,89,734	300.56	20.59	4.63	249.00
10. West Bengal	10,342	2,74,428	65,72	3.60	3.73	92.11
11. Hyderabad	4,691	1,36,657	73.81	2.62	1.95	67.65
12. Jammu & Kashmir	2,273	1,43,760	25.59	2.36	0.11	10.80
13. Madhya Bharat	6,654	1,46,393	76.35	5.72	0.24	115.67
14. Mysore	2,788	1,33,140	53.28	9.02	2.41	13.79
15. Pepsu	1,382	38,165	31.44	2.29	0.98	22.00
16. Rajasthan	1,956	39,505	19.82	1.21	0.10	20.54
17. Saurashtra	676	29,800	17.48	10.95	1.97	20.99
18. Travancore-Cochin	1,121	1,63,155	42.80	9.29	1.77	5.56
19. Ajmer	556	13,873	9.66	0.50	0.05	4.08
20. Bhopal	214	7,185	1.74	0.03	0.03	2.01
21. Coorg	201	24,752	9.74	3.66	2.82	5.67
22. Delhi	83	2,311	0.98	0.07	0.05	0.58
23. Himachal Pradesh	187	4,525	1.51	0.07	0.05	0.45
24. Kutch	11	391	0.12	Nil	0.07	0.01
25. Manipur	22	915	0.33	0.01	Nil	Nil
26. Tripura	7	416	0.05	Nil	Nil	Nil
27. Vindhya Pradesh	129	2,517	0.43	Nil	0.01	0.06
Grand Total :—	1,26,954	58,49,380	2,154.58	278.32	162.86	2,845.08

Agriculture

AT THE END OF 1953-54 (AMOUNTS IN LAKHS)

Working Capital	Fresh advances during the year	Reco-veries	Out Stan-ings	Overdues	Percen-tages of overdues to out standings	Value of good received	Value of goods sold
8	9	10	11	12	13	14	15
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
593.32	346.48	361.22	497.22	152.20	34.2	13.92	14.69
10.53	1.83	1.24	6.03	3.35	55.8	Nill	Nil
120.13	42.14	21.22	65.10	24.71	38.4	31.33	28.75
1,546.89	990.23	893.05	1,223.13	374.36	31.0	512.42	540.96
343.30	260.35	182.14	296.31	60.44	20.9	Nil	Nil
765.35	349.96	397.53	600.48	172.75	29.00	6.80	62.56
147.73	69.24	51.38	10791	29.34	27.2	1.00	1.14
458.17	247.31	181.92	352.61	88.71	25.1	2.44	2.41
574.86	317.59	264.81	407.49	81.49	19.1	12.56	12.07
165.17	94.90	84.46	112.71	36.25	32.1	0.27	0.27
146.02	41.97	31.95	94.61	50.47	53.3	0.05	0.11
38.87	3 .82	7.25	15.10	7.34	48.6	74.46	76.27
197.98	72.37	65.69	158.35	62.85	39. 7	3.34	3.42
78.49	24.61	24.53	46.61	17.16	36.8	16.62	17.95
56.71	18.67	11.66	46.05	3.00	6.5	0.06	0.02
41.66	17.59	14.09	34.58	12.56	36.3	0.04	0.09
51.39	30.23	20.16	34.45	9.80	28.4	31.44	31.42
59.41	16.99	18.51	27.75	10.40	37.3	122.61	126.35
14.29	3.32	2.87	9.43	0.63	6. 7	0.27	0.31
3.82	0.04	0.13	1.56	1 .51	96.7	---	---
21.89	11 .48	9.50	15.49	2.35	15.1	0.15	0.08
1.68	2.17	2.07	1.29	0.49	38.00	---	---
2.08	0.59	0.49	1.57	0.64	40.7	0.07	0.10
0.20	0.03	Nil	0.03	---	---	0.52	0.49
0.34	0.14	0.10	0.05	---	---	0.90	0.97
0.05	0. 02	Nil	0.02	---	---	0.04	0.04
0.50	0. 29	0.16	0.50	0.42	84.0	0.07	0.09
5,440.84	2,964.36	2,648.03	4,156.43	1,203.22	---	885.38	920.56

Operations showing Progress of Agricultural Credit Societiew in the Indian Union.

(Amounts in lakhs of Rs.)

Details	1949-50	1951-52	1953-54	REMARKS
1. No. of societies	1,16,534	1,170,10	1,26,954	
2. Membership	54,24,000	54,24,000	58,49,000*	
3. Owned funds 1,529.33	1,529.33	1921.53	2,154.58	
4. Percentage of owned funds to working capitl	41.0	41.0	39.60	
5. Deposits	423.29	423.29	441.18	
6. Other borrowings	2,337.61	2337.61	2,845.07	
7. Working capital	4,682.45	4682.45	5,440.84	
8. Fresh advances	2,858.02	2458.02	2,964.36	
9. Repayments	1,922.28	1922.28	2,648.03	
10. Loan outstandings	3,452.08	3452.08	4,156.43	
11. Overdues	884.18	884.18	1,203.22	
12. Percentage of overdues to loan outstanding	21.50	25.6	29.00	
13. Purchase of members' products	1,444.00	2,219.95	885.38	
14. Sale of goods	1,555.26	2,271.15	209.56	

N.B.—Figures taken from the Review of the Co-operative Movement in India for 1948-50, 50-52, 52-54 published by the Reserve Bank of India. * Rounded to 000 only given.

Operations of Multi-purpose Societies in the Indian Undion.

(Amounts in lakhs of Rs.)

Details	1950-50	1951f52	1953-54	REMARKS
1. No. of Societies	29,525	39,930	48,659	
2. Membership	15,07,000	23,42,000	24,79,000*	
3. Owned funds	—	—	—	
4. Deposits	117.57	172.01	199.58	
5. Working capital	755.48	1,333.71	1,691.18	
6. Fresh advance	400.44	720.63	873.25	
7. Recoveries	317.60	437.03	403.46	
8. Loan outstandings	369.09	726.43	981.34	
9. Overdues	62.43	126.82	207.57	
10. Percentage of overdues to loan outstandings	16.90	17.40	21.10	
11. Purchases of goods	1,397.48	2,260.96	816.69	
12. Sale of goods	1,386.42	2,785.96	1,087.79	

N.B.—Figures taken from the Review of the Co-operative Movement in India for 1948-50, 50-52, 52-54 published by the Reserve Bank of India. *Rounded to 000 only given.

Volume III Chapter VII *Appendix No.* 4.

Progress of Grain Banks in the Indian Union at the end of 1953-54.

(Amounts in lakhs of Rs.)

(1) No. of societies	7,869
(2) Membership	6,44,000*
(3) Owned funds	168.75
(4) Borrowed funds	
(a) Deposits from members	1.24
(b) Deposits from non-members	3.41
(c) Other borrowings	4.46
(5) Working capital	177.86
(6) Loans issued	34.64
(7) Recoveries	31.30
(8) Loans outstanding	82.70
(9) Overdues	54.08
(10) Non-credit activities	
(a) Value of goods marketed	1.15
(b) Value of goods received	1.12

N.B.—Figures taken from the Review of the Co-operative Movement for 1952-54 published by the Reserve Bank of India.

* Rounded to 000 only given.

CHAPTER VIII

CENTRAL FINANCING AGENCIES

1. Genesis and Growth of Central Financing Agencies:- The original scheme of co-operation in India did not contemplate the formation of federal or secondary institutions either for finance or for supervision, but from the earliest times it was recognized that agricultural credit societies would not be able to raise all the capital needed locally and it was anticipated according to plan chalked out by Mr. Dupernex that urban banks would be able to raise adequate capital to meet not only their own needs but also those of rural societies. The need for borrowing from outside and for supervising primary agricultural credit societies had been felt even from the inception of the co-operative movement. The credit for establishing the first central co-operative bank goes to C. P. and Berar, where a central bank was established at Sihora in the Jabalpur District with the sole object of financing the primary societies. The bank later undertook the functions of supervision and control of primaries. In Madras the Madras Central Urban Bank was started in 1906. A few months later the same year saw the birth of the Bombay Urban Co-operative Bank with a similar object. Thus under the earlier arrangements the larger urban banks assumed the position of central financing agencies without having any legal status of such an institution at the time. After the passing of the Co-operative Societies Act, II of 1912, Central Banks came into existence in many of which the primary agricultural credit societies came to be represented in some way. In some provinces, Central Banks were established to serve the bulk of primary societies either directly or through the medium of guaranteeing unions of societies. In others the central banks served smaller areas such as a district or a part of a district. When the central banks themselves were in want of funds, they either borrowed from other central banks or joint-stock banks or from the Provincial Co-operative Bank, if one existed.

2. Categories of Central Banks. The Maclagan Committee classified the central co-operative banks in India according to

their constitution under three heads: (1) Banks of which the membership is confined to individuals; (2) Banks of which the membership is confined to societies alone, and (3) Banks which include both individuals and societies as their members.

(i) The first class includes the banks in which shareholders consist entirely of individuals or societies are admitted as shareholders without any special provision for securing their representation on the committee or for reserving definite portion of share capital for them. A bank in this class is in much the same position as a joint -stock bank, if it proposed to grant loans to any individuals or institutions besides co-operative societies and to do outside banking business unconnected with co-operative finance. The Maclagan Committee recommended , therefore, that such a bank should not be registered under the Co-operative Societies Act on the ground that its existence would cause friction with the societies which it is intended to serve and with joint-stock banks with which it might enter into competition. At the time when the Maclagan Committee reported, there were 21 institutions of this type spread over the provinces as shown below :—

(1) Madras	...	4
(2) Bengal.	...	3
(3) Punjab.	...	12
(4) Assam.	...	2
		21

In regard to these banks the Committee observes as follows:-

"There are now practically no central banks which undertake outside business and comparatively few which lend to individuals. But in our opinion, the time has come when steps should be taken to bring to a close in all cases the practice of granting any loans except to registered societies. If these conditions are complied with , we would not recommend the absolute prohibition of the use of this kind of bank by societies provided that the bye-laws are carefully drafted and include provisions limiting the dividend to a resonable percentage on share capital so as to ensure that affiliated societies cannot become a prey to the capitalistic tendencies of the shareholders. The relations between societies and a bank of this

class would be a matter of contract and it would be for the Registrar to see that the contract was not unfavourable to societies. It must of course be understood that a purely capitalistic central bank is not a suitable agency for the training and supervision of societies or for fixing the total capacities of societies in respect of their dealings with public. On the whole, the difficulties that beset the banks of this constitution are so considerable that we should prefer to see them gradually disappear."

(ii) **Purely Co-operative Central Banks.** The second class would be the best suited to finance societies satisfactorily. The conflict of interests between the shareholders of the central banks and the borrowing societies is of course eliminated by the identification of the two parties. The management of this type of bank involves the least possible expense because owing to the union of borrowers and lenders the staff maintained to verify the credit of borrowers orto recover loans from them is on a much dimished scale . There is no need of earning dividends since the profits out of which they come are derived from the very institutions that would receive them. The only draw back of this class of banks is that it is difficult to find among members of societies representatives with sufficient capacity to manage such an institution. This type of bank generally fails to evoke the interest or give scope for assistance to the middle classes who are excluded from active participation in its working. Nor has it the necessary prestige to attract local deposits to the extent to which they would have been forthcoming if the middle classes were associated with the bank. In view of these practical difficulties, banks of this class have not hitherto proved an unqualified success. Though they represent the model at which co-operation should. ultimately aim, they should not be unduly forced. There were 42 banks of this type in a few provinces as indicated below:—

(1)	Bombay	...	1
(2)	Bengal.	...	6
(3)	Bihar and Orissa.	...	1
(4)	U. P.	...	14
(5)	Punjab.	...	20
			42

(iii) Mixed Type. The third or the mixed type includes banks in which societies are not only assigned a certain proportion of the shares but are also given separate representation on the Board of Directors. If provisions are introduced, which, by securing to societies a majority on the directorate and by limiting dividends to a reasonable rate, will prevent individual shareholders from enjoying an undue advantage, it is best suited to existingc onditions. Though not so cheaply managed as the second class, it will be cheaper than the first class and in addition, it offers a means whereby an intelligent directorate can be obtained and the middle or professional classes of the locality enabled to take part in the movement. The number of banks of this type predominated and they were found in all the provinces and their number stood at 126 when the Maclagan Committee reported.

3. Central Banks contrasted with Commercial or Joint-Stock Banks. The question is often asked as to what is the difference between Co-operative banks, and joint-stock banks as both of them serve the same purpose Viz., providing facilities for saving and investment of surplus funds on the one hand and supply of credit on the other. One point of distinction between the two is that they are organized to serve the needs of different sections and interests of the community and to that extent they may be said to be complementary organizations. The Co-operative banks are mainly intended to serve the requirements of the cultivating and labouring classes, while the commercial or joint-stock banks mainly serve the needs of trade and industry, though co-operative banks themselves can be developed to serve the needs of trade and industry as well in due course as these spheres are not watertight compartments, as some people seem to think. Judged from this standpoint, the real difference between the two types of banks would seem to lie in the class of borrowers and the consequential variations in the methods of dealing with them. In a co-opertive bank the borrowers have a predominant voice in determining the terms and conditions of obtaining credit. In other words, they borrow from an instituation which is managed by themselves and do not feel the humiliation of those who approach an outside creditor for a loan. Apart from this ideological difference it is the function of co-operative banks to

bring the services of modern banking to the doors of the sections of the population which otherwise mostly remains outside the ambit of modern financial machinery. If past experience is any guide, the joint stock banks are by and large still reluctant to change their outlook and are mostly inclined to look upon the security offered by an agriculturist for a loan as unsafe on the ground that Indian agriculture is still a gamble in rains. How joint stock banks are unsuitable as agencies for financing the requirements of agriculture has already been dealt with in detail in a previous chapter and suffice it to say here that joint stock banks are unwilling to split up their resources into numerous tiny lots to be received in instalments spread over fairly long periods. Another significant difference that may be noted between the two systems lies in the fact that joint-stock or commercial banks are more interested in supplementing the resources commanded by them in the large cities by drawing the surplus wealth of towns and rural areas and by diverting them to the head offices to finance large business, trade, commerce and industry--while the aim of a co-operative bank is just the opposite. A co-operative bank tries to collect surplus funds of urban areas in order to distribute the same through its own distributory channels in rural areas "sending it in rills over a broad surface so that the irrigation may be perfect and reaching every root to be watered." By the time the Maclagan Committee investigated the position of central banks, the formative period had practically come to an end and ideas about their purpose, their role, their management and work had crystallized. The Maclagan Committee made many useful recommendations in regard to the various aspects of the working of central banks which are briefly summarized as under :—

(a) **The Area of Operation:**—The area served by a central bank should be defined and as far as possible should coincide with some administrative division such as a district or a tahsil but should ordinarily be prepared within a reasonable time to deal with 200 or 250 societies.

(b) **Branches of Provinical Bank :**—Provincial Banks may preferably open local branches in place of independent central banks in areas where guaranteeing unions are well developed, but as a rule, a system of central banks will be found more efficient.

(c) **Management:**—The mangement of co-operative finance being simpler than that of joint-stock banks, a central bank may be competently managed by lawyers and professional men, though trained bankers should be secured on the board, when available. The Manager and staff of a central bank should be adequately paid. The Registrar, Co-operative Societies, should be satisfied that the supervising staff maintained by it is adequate and efficient. Such a staff may properly assist voluntary applicants in forming new societies.

(d) **Composition of Capital.** All shares in a central bank should preferably be on one footing. But if it is absolutely necessary in order to attract local capital, shares assigned to individuals may carry preference as regards dividend but not cumulative dividend. It is simpler if the shares held by the societies and individuals are of uniform value. Societies should ordinarily be required to take shares in their central banks in proportion to the amount of their borrowings from it. Every shareholder in a central bank should have one vote only. If there is a difficulty in raising capital, local Governments may properly authorise individuals to hold shares in excess of the statutory maximum limit, but otherwise, the limit fixed by the Act should be adhered to. All shares held by individuals should be fully paid-up and reserve liability should be restricted to the face value of the shares and not to some multiple of it, and should be permissible in the case of shares held by societies. The rate of dividend should be limited by a rule. Where most of the shares are held by societies, the maximum should be the same as the average lending rate. Where the shareholders are chiefly individuals, it should not exceed the average rate paid on deposits by more than 2 or 3%. Bonuses should be prohibited.

Deposits. Deposits by primary societies in central banks should consist of:—

(1) Excess deposits received by them and passed on and
(2) Small deposits for short periods.

Reserve funds should not be deposited in them. The opening of Current Accounts is deprecated but in places where banking facilities do not exist, they may be permitted. A low rate of interest

not exceeding 2% should be paid on such accounts and the whole amount so held should be covered by cash or Government paper, irrespective of fluid resources kept to cover other liabilities. Savings Accounts may be opened on behalf of members and non-members, provided that 75% of the amount so held is covered by cash or liquid investment, that the maximum accepted on one account is small and that notice of withdrawal is required and that they are not allowed to become current accounts. Central banks should make every effort to obtain deposits sufficient to meet all their needs and may draw them from any area subject to such restrictions as may be found locally advisable. The average period of deposits should not be less than the average period in which loans are repayable. In arranging to repay deposits banks should not count on renewals or fresh deposits but rely on stipulated repayments of loans and should spread receipts and payments as far as possible to cover the whole year. To meet all charges entailed by the recommendations of the Committee central banks require a 3% margin and the primary societies also require the same. But special care should be taken to repay deposits punctually. The intentions of depositors with regard to renewals should be ascertained in advance. Central banks should be allowed to regard the undrawn portion of any cash credit granted to them by a Presidency Bank as a fluid cover. Cash credits with joint stock banks of recognized stability also constitute legitmiate fluid resources. The Registrar should introduce central banks to joint-stock banks and furnish the latter with any information they require. Joint stock banks should be expected to examine the position for themselves and not to rely on Government support for repayment. Loans by central banks may, with the Registrar's sanction, be made to other central banks. Loans between central banks should cease as soon as a Provincial Bank is started. Central Banks should raise capital by means of long-term deposits rather than debentures unless in very special cases they are in a position to secure debentures on immoveable property. The owned capital, i.e. share capital plus reserves, should at least be 12½ of total liabilities.

(e) **Employment of Capital.** Central banks should not grant loans to individuals nor should they undertake any out-

side banking work. A central bank should assess the credit of an affiliated society after re-examining and testing either by its own staff or through a union, the society's own estimate of the borrowing power and the data on which the society has fixed the normal credit of its members and considering the society's needs and its own existing funds. The data required by a central bank should include a valuation of—

(1) the moveable and immoveable property of the members of a borrowing society; and

(2) the earning and saving capacity of the same members. These data should be used to check conclusions based on the character of the society and on its past record.

Where a union exists, the valuation mentioned above should be made by it and where it does not exist, by the central bank. Responsibility for the making of the valuation should be undivided. The Registrar should have power to require the reduction of credit of any society. Loans should be sanctioned as far as possible all together at one or two main seasons in the year. Central banks should accept the opinions of unions with regard to the purpose and amounts of loans but in case of insufficiency of funds to meet all claims may refer back to the union. Subject to the condition that the terms of loans must depend on the terms for which deposits are held and that repamyent due within a given period should exceed the deposits falling due within the same period, central banks may grant loans either recoverable in fixed instalments or on pro-notes nominally payable on demand, the society's repayments corresponding with the repayments made by the members. Cash credits should be freely opened in favour of thoroughly well-managed societies. The security taken from a borrowing society should ordinarily be a pro-note. Shares held by societies in central banks should not be accepted as security for a loan, though deposits may be. Rates charged on loans should be below bazar rates, but should be high enough to allow of a wide margin. Rates may vary with reference to the character of the borrowing society and the length of the loan. Money recovered from members should be at once available for repayment by a society to a central bank. The

central bank should supervise recoveries but need not prepare lists of overdue loans. Central bankis should not ordinarily institute proceedings against defaulting societies in civil courts, but should exercise pressure through their staff and finally apply to the Registrar to take action under Section 36 of the Act. After providing fully for fluid resources, a central bank may legitimately use balance, if any, of reserve fund in its own business. To meet contraction of credit, central banks must keep fluid resources which should be sufficient to meet 50% of deposits due during the ensuing year, supposing no fresh deposits or renewals were made and no repayments received. Fluid resources should be utilized only when other sources fail, and the fiuid resources of a bank must suffice to meet its own requirements and those of societies which have entered into arrangements with it. The standard of fluid resources should be readjusted every quarter, and superfluous funds should be passed on to Provincial Banks.

(f) **Distribution of Net Profits.**— In calculating net profits for the purposes of distribution, central banks should always deduct interest accrued and overdue. Interest earned but not due should be shown separately in the profit and loss account. The provision of contingent or bad debt fund is desirable in the case of banks which only place the legal minimum to reserve. Building funds are permissible, provided that they are postponed to the provision of an adequate reserve. Where such buildings serve also as agricultural depots, Government may properly contribute to their cost.

(g) **Audit and Supervision.** The audit of the accounts of central banks may be entrusted to expert outside agencies or made by the Registrar's staff. Such banks should bear the expense of their own audit. Central banks should publish and distribute balance sheets and annual reports, and they should contain more details than at present. In addition to their annual returns, central banks should submit quarterly statements showing especially their liabilities to outside creditors and their progress in the formation of fluid resource.

4. **The Co-operative Banking Structure.**—These recommendations of the Maclagan Committee were implemented in most

of the Provinces and by 1919-20, a somewhat loose federal structure of co-operative finance had been evolved. The rural credit society is the foundation-stone of the credit structure. In order to strengthen the primary credit societies operating in a specified area they are usually federated into central financing agencies known as central banks or banking unions. Higher up still, the central banks in their turn are federated into their own apex institutions called 'Provincial Banks'. There is but one class of credit agencies which does not exactly fit in with this federal structure. The bigger urban banks and the employees' societies, though they have no central and apex organization of their own, and occasionally borrow from the central or provincial banks, do not come intimately into the credit structure. The stronger of them are self-sufficient and command their own resources and the smaller ones actually compete with the central banks for their working capital by offering higher rates of interest on deposits. They borrow and invest elsewhere, if they can do so, on more favourable terms offered by central banks and go to central banks only if they must. Similarly. land mortagage banks do not also fit in into this structure, though in some provinces they derive their working funds from the Provincial Co-operative Banks. Where a Provincial Bank provides land mortgage credit it does so through a separate and distinct long-term credit section and does not mix up this sort of credit with normal co-operative credit. It may be noted that separate Provinical Banks have come to be set up for them in several provinces. In the pyramidal structure of co-operative finance, the central bank plays an important role. It is managed by a Board on which the representatives of the primary credit societies find a place, and are in a majority. It not only functions as a balancing centre for the primaries but also provides the much-needed guidance and supervision to improve their working in addition to meeting their credit requirements. In a similar way, the Provincial Bank is expected to play the same role in respect of district central banks which is assigned to a district central bank vis-a-vis its primaries. It is pointed out by some critics that the co-operative banking structure is not truly a federal one, as the component parts do not form well-knit units of an integrated financial machinery. Central banks have no control over the operations of the primary

societies affiliated to them and the position of the Provincial Bank vis-a-vis the central banks is also not different. This criticism has some force in it, but it must be remembered that the sponsors of the co-operative movement in India did not start with a set plan to give a structural or functional perfection to the co-operative credit organization. Moreover, its growth did not follow the same course in all the provinces. In some cases it was built from top to bottom, while in others it was built from bottom upwards, if there was any conscious building up at all. The juridical and financial relations that subsist between the primary societies and their central banks those that subsist between the central banks and the provinical bank are not such as to make them really integrated parts of a closely knit machinery. Despite these defects, however, it might be stated that on the whole the structure may be called federal, as later experience has demonstrated in Bombay that this ideal is being reached with the advance of time, under the guidance of the Reserve Bank of India.

5. **Central Banks Vs. Branches of Apex Banks.** While we are on the subject of co-operative banking structure, we must call attention to the controversy that has held the field for well over three decades. This is with regard to the question whether branches of apex banks are preferable to the independent district central co-operative banks. In this connection, the Bombay Provincial Enquiry Committee, while writing about the centralization of co-operative banking in Sind, observed : "The advantages claimed for the centralization of co-operative finance are that the credit of the central institution being appreciably higher it will be able to raise capital at a cheaper rate than separate district institutions and that it will be able to maintain a better staff and exercise a stricter control. It has been argued that such an institution will be able to introduce new developments which it is not possible to embark upon in the present circumstances. Although there is much force in these arguments we do not favour the proposal....It will, in our opinion, be undesirable to convert these independent institutions into branches and to turn their boards of directors into advisory committees. We do not think that the advisory committees will show the same

interest in the working of the branches of the proposed amalgamated bank, as the present boards are doing in the case of their own bank with great advantage to the general public, and we fear that if centralization is carried into effect as suggested, the whole organization will come to be governed too much from the centre and will depend for its proper working mainly on a paid staff." This controversy received a fresh lease of life when the Rayalaseema Co-operative Enquiry Committee complained that the introduction of an ostensibly co-operative middleman in the shape of these banks between the primary society and original lender imposed a heavier burden on the ultimate borrower than he can be called upon to bear. It thought that the provincial banks should be able to make money available to the primary societies at the rate at which it is now able to make it available to the district banks. If branches of the provincial banks took the place of district banks, the deposits should flow into them at practically the same rate as at headquarters of the provincial banks, in any case at rates which would be substantially lower than would be payable by an independent smaller local institution. The overheads of a separate autonomous district institution should cost more than those of a mere branch of a central financing agency. The question was further discussed at length at the Fifteenth Conference of Registrars held in 1947 when the following resolution was passed :—

"This Conference...recommends that (a) finance may be provided either by branches of the provincial banks or by central banks as may be more convenient, and (b) that in economically backward areas, i. e., those subject to periodical famines, floods etc., Government should give special financial assistance to the financing agencies to meet the bad debts arising from conditions beyond the control of the borrowers or may consider the advisability of setting up an Agricultural Credit Corporation for such areas if the co-operative agency cannot flourish in such areas and (c) that Governement should make special efforts to increase the income of the cultivators in these backward areas by providing the necessary facilities."

While laying down standards for recognition of central financing agencies, the Standing Advisory Committee of the Re-

serve Bank of India unambiguously expressed its opinion in the following words :-

" Other things being equal in regard to finance, local support, administrative efficiency etc., the establishment of a central bank should be preferred to that of a branch of a State Co-operative Bank. In areas which are relatively undeveloped in the economic and co-operative aspects, the proper course is likely, in many cases, to be to establish branches of the apex banks with such financial assistance from the State Government as may be necessary. In such instances, the policy should be that of eventually replacing the branch by a full-fledged central bank." This view also finds support in the Report of the Rural Credit Survey. Responsible Co-operative opinion considers that as between a federated co-operative structure with a village base connected with the State Apex through a district central financing agency on the one hand and a system of branches of the apex or State institution operating as an intermediary on the other, the former has generally been proved to be superior in all essential respects. Under it, more and better service is apt to be given and local resources and initiative are likely to be called into action than under the latter. In so far as in a federated co-operative structure, the management of each rung of institutions is penetrated by representatives of others, mutual knowledge and appreciation tend to be maximised. The position would, however, require to be reviewed if in any area the vital conditions viz. local initiative or resources are not forthcoming in a sufficient measure even after the establishment of an independent district central bank.

6. **Central Banks Vs. Banking Unions.** When the Reserve Bank suggested the reorganization of rural credit societies, by converting them into multi-purpose societies, it also favoured the establishment of banking unions on the Kodinar model. In Bulletin No. 1 it is stated : " In order that primary societies may be able to function as multipurpose societies, the financing institution will have to be in the closest possible touch with the societies, guiding their activities without taking away their initiative or rendering them hopelessly dependent on outside help. The present district central banks covering wide areas with a

large number of societies affiliated to them are clearly unsuited to play this role. It is the realization of this fact that has led to the formation of separate institutions for the purpose of supervision and guidance of societies. It is open to question whether this separation of finance and supervision is desirable. It is wrong that the party which supplies funds should not itself make enquiries about the standing of the borrower or leave to a third person the business of seeing that the borrower makes proper use of the money and returns it in time. A better way would have been to split up the district central banks into small units so that the area in charge of each would have been manageable and the number of member-societies reasonable. Primary Societies are to undertake multifarious activities. It is essential that they should receive constant help and guidance from the financing institution. A banking union on the lines of the Kodinar Union extending its operation over the Tahsil or a Taluk would be the most suitable financing institution for this purpose. Whereas in Bombay the Provinical Bank is dealing directly with primary societies, it should not be difficult to get such unions formed. Branch banking is undoubtedly economical, but fails in developing self-help, and the inculcation of co-operative principles. The Provincial Bank's real role should be to act as the balancing centre both in repayment of the supply of funds and the insistence on sound banking practice. It should confine its activities to this higher field and encourage development of local unions rather than have direct relations with primary societies." Even before this, some of the Provinces like the Punjab, Uttar Pradesh, Bihar and Orissa had started banking unions, but most of them were more concerned with supervision, guidance and joint sale of produce than credit, with the solitary exception of the Punjab. Commenting on these views of the Reserve Bank, one of the joint authors of the joint Reorganization Report in Bombay Shri V. L. Mehta questioned the desirability of extending the scheme to other areas as the success that had been attained in Baroda was rather due to the accident that the Co-operative Department, and especially the Registrar of Co-operative Societies (Shri Manilal Nanavati), took special pains over this particular area and that personal factors had to be discounted in any consideration of the practical applicability of the scheme elsewhere. The Joint

Reorganization Report in Bombay was, however, agreeable to the formation of banking unions in certain contingencies. It recommended that " A banking union with a taluka as its area of operation and able to obtain local deposits to finance primaries could be started if the area is suitable and a sufficient number of societies exist. In the alternative, a supervisnig union which is working satisfactorily and with good primary societies affiliated to it may be considered suitable for being converted into a banking union. Where the condition of the primaries is satisfactory and a supervising union does not exist or has been newly created, a banking union could also function in place of the supervising union. The banking union may rely for additional funds required by it on the apex bank. The banking union may finance individuals and nominal members against produce and valuables. Where a purchase and sale union does not exist, the the union will also act as a commission agent. The banking union will dnotuorban banking business. The mainrepresentation on the banking union will be of its primaries. Individual and nominal members may be given a limited representation restricted to two and one respectively. Inaccordance with the recommendations, a few banking unions were started in the Bombay State, but they have not on the whole succeeded. Even elsewhere, the unit is so small that it cannot be run economically with a small turnover of business and a thin margin of profit. There are certain differences in the organization of banking unions as advocated by the Reserve Bank of India and as actually established in the Bombay State, which are indicated in the sub-joined table

Particulars.	Scheme of a Banking Union recommended by the Reserve Bank of India	A Banking Union as established in the Bombay State.
1. Selection of Area.	The need for selecting the right type of workers in selecting the area is stressed. Simple people who are willing to learn and be led should be pre-	The area selected should be one which is served by an existing supervising union having a fairly large number of well managed thrift and credit

Particulars.	Scheme of a Banking Union recommended by the Reserve Bank of India	A Banking Union as established in the Bombay State.
	ferred to those who think that they know everything, but backward areas should be avoided.	societies and multi purpose societies. The supervising union, if other conditions are satisfactory, may be converted into a banking union for the purpose of combining the functions of supervision, finance, guidance and education of member societies in the same institution. Even if there be no supervising union, the area may be considered to be suitable if other conditions are satisfied. At least 40 to 50 well-managed societies are necessary for the establishment of a Banking union.
2. Membership.	Membership of the banking union could be confined mosty to multi-purpose societies and a few primary societies, as the idea behind the formation of a banking union is to guide the societies in their multifarious activities,- viz., supply of agricultural requisites, domestic requirements and joint sale of members' produce. The Reserve Bank	The scheme of the banking union adopted in Bombay introduces individuals as members of the Union. The joint Reorganization Committee suggested the enrolment as individual members of holders of lands in the taluka who require finance for agricultural purposes in excess of the absolute limits laid down in the bye-laws of the

Particulars.	Scheme of a Banking Union recommended by the Reserve Bank of India	A Bauking Union as established in the Bombay State.
	believe that representatives of agricultural credit societies would not only be able to tap adequate local resources but also be able to manage the affairs of the union efficiently once the union is organized in sclected area with right kind of people.	primary affiliated societies. Provision is also made in the byelaws of the banking union for enrolment as nominal members of individual members of affiliated societies who require finance against the pledge of stock and valuables. The reasons why individual membership is introduced are not far to seek. The success of a banking union depends to a large extent on its ability to tap local talen- and enthusiasm in its management. Unless individuals are associated with the management of a bankt ing union-individuals who are big agriculturists-it is apprehended that a banking union may not ensure that degree of confidence of the public that is vital to its success. Moreover the area selected should be one where a purchase and sale society is not in existence.

Particulars.	Schme of a Banking Union recommended by the Reserve Bank of India.	A Banking Union as established in the Bombay State.
3. Share Capital.	The share capital will be solely contributed by the member-societies, as it is a pure type of banking union.	Since individuals are also admitted to the membership of the union, individuals would also contribute to its share capital.
4. Management.	The management of the unions will vest in representatives of Multipurpose societies primaries other.	The Committee of Management will consist of representatives of societies and individuals in the proportion of 2 : 1.
5. Funds.	Funds will be raised by :- (1) shares contributed by affiliated societies; (2) deposits of members or non-members; (3) reserve funds of affiliated societies compulsorily deposited with the union. (4) loans from apex institutions. or other co-operative institutions.	In the departmental scheme of a banking union, there is no provision for compulsory deposits of the reserve fund of primaries with the union.
6. Income of the Union.	It will consist of- (1) Interest on credit business with societies only; (2) commission on sales and purchases condeted on behalf of primary societies.	In addition to the item-shown in column 1, income will consist of interest on loans to individuals, profit on banking business and subsidy received from Government for defraying the

Particulars.	Scheme of a Banking Union recommended by the Reserve Bank of India	A Banking Union as established in the Bombay State.
	(3) Rent or hire of machinery supplied to member-societies. (4) direct contributions by the affiliated societies for supervision as supervision fees.	cost of supervision of affiliated societies.
7. Expenses of Management.	The expenses of management will include items like salaries of the Manager and staff, T. A. to staff and Committee members, rent, stationery, contingencies, etc. The turnover of business should be such as to have adequate revenue to meet all these expenses.	In the scheme of banking union adopted by the Department, it is expected that a banking union will balance its budget.
8. Appointment of a Manager.	The success of the union will mostly depend upon the selection of a proper man as a manager. For guiding the multifarious activities of a union a Graduate in Agriculrture is to be preferred. He should also have, in addition, training in co-operative banking.	In the departmental scheme also the necessity of employing competent well-qualified and well-paid manager and staff has been stressed. He need not, however, necessarily be a Graduate in Agriculture. What is needed is a man who knows his job well.

It was expected that a number of banking unions would come into existence in the areas directly financed by the apex bank in Bombay. But these expectations did not materialise, and their

number never exceeded six. The position of the banking unions in the Bombay State as on 30-6-54 is given in the following table:—

1.	No. of banking unions.		6.
2.	Membership:		
	(a) Individuals.	1395	
	(b) Societies.	496	
3.	Share capital (in lakhs)		Rs. 4.71
4.	Deposits (in lakhs)		Rs. 20.97
5.	Borrowings from Bombay State Co-operative Bank.		(in lakhs) Rs. 4.59
6.	Statutory reserve and other funds.		Rs. 2.84
7.	Working capital.		Rs. 32.12
8.	Loans advanced:		
	(a) Individuals.		Rs. 5.06
	(b) Societies.		Rs. 50.37
9.	Recoveries:		
	(a) Individuals.		Rs. 3.34
	(b) Societies.		Rs. 48.97
10.	Loans outstanding:		
	(a) Individuals.		Rs. 4.19
	(b) Societies.		Rs. 17.09
11.	Overdues.		Rs. 1.41
12.	Percentage of overdues to loan outstanding.		6.6
13.	Profits.		+0.34
			0.11
		Total...	0.23

The proposals of the Reserve Bank of India for establishing banking unions by splitting up district central banks were not endorsed by the Fourth All India Conference of Registrars held at Bangalore in 1937. It expressed the following opinion:—

"This Conference is unable to agree with the view that central banks operating over small areas are preferable to larger banks or that large district banks must be split up into small banks."

"This Conference, while it recognizes that a pure type of central banking union composed entirely of primary societies and with no individual shareholders, has much to commend it from a co-operative point of view, is of opinion that such unions are not capable of being developed and effectively worked in many areas. They were tried and abandoned in some areas. The matter must be left to local co-operative enterprise arccording to local conditions. The wisdom of these views has been vindicated by later experience which has demonstrated that banking unions have been proved to be the weakest link in the co-operative bankng structure and the Reserve Bank itself has now changed its opinion and has been advocating their merger with the larger units, as the general policy adopted has been to start one central co-operative bank for a revenue district. The recent Rural Credit Survey Report observes in this context :—

"In a particular area, financial and other conditions justify the formation of a bank for a region smaller than a district, there should be no objection to this; the same consideration applies of course to such of the existing central banks as happen to serve relatively prosperous areas which, though each of them may be smaller than a district, nevertheless provide enough business to render the central bank an 'economic' unit. That, however, in several States, is far from being the case. In all such instances, the amalgamation of the small units into one strong unit for the area (normally a district) should be kept unambiguously in mind as the desired objective, a plan of amalgamation drawn up for the area, and the plan vigorously pursued in spite of the objections which the smaller units are bound to raise as also of all other opposition that may be offered to such a course."

7. **Period of Expansion**:- The period of fifteen years commencing with the Report of the Maclagan Committee and ending with the advent of the economic depression was marked by the expansion of the co-operative movement and the expansion of the co-operative banking system in particular. The financing agencies, wherever they were strong, consolidated their position further and expanded their activities. The following table indicates the comparative position of the central financing agencies at the end of 1919-20 and 1929-30.

	1919-20	1929-30
No. of Banks.	393	588
Membership :		
(1) Individuals. (000)	93	90
(2) Societies.	29,120	1,01,499
	(Amounts in lakhs)	
Paid-up Share Capital.	95	295
Other Owned Funds.	27	177
Loans and deposits.	358	1866
Societies.	43	224
State Co-operative Banks and Other Central Banks.	107	460
Government.	13	69
Working Capital.	643	3090
Loans advanced to—		
(1) Individuals.	19	86
(2) Banks and Societies.	381	1693
Loans due-		
(1) Individuals.	15	49
(2) Societies & Banks.	560	2411

These figures indicate that the progress of central banks was satisfactory in all directions, but it varied from province to province. Bulk of this progress had been recorded in Bombay, Madras and the Punjab. The success of central financing agencies in the Punjab was partly due to the fact that the lendings of societies were in irrigated tracts and to farmers raising commercial crops and partly to the wise guidance of the official and non-official workers in the movement. The success in Madras could be attributed to the statutory powers vested in the Provincial Bank under the Madras Co-operative Societies Act and to sufficient precautions taken by the Department to safeguard their interests. In Bombay the success of central financing agencies was the result of dynamic role played by the Provincial Bank, although it had no statutory powers of supervising and inspecting them. In the three States, viz., C. P. and Berar, Bihar and Bengal, all was not well with the central financing agencies and yet in other provinces they somehow pulled on.

8. **Impact of Depression on Central Financing Agencies.**—The disastrous effect of the great depression on agricultural prices affected adversely the repaying capacity of the agriculturists and their primary societies. The period was characterised by accumulation of overdues of principal and interest and the central financing agencies restricted fresh finance to primaries in their attempt to safeguard their own position. This policy hit hard even the honest and punctual borrowers in primary societies and there was a general tendency on their part to withhold repayments for one reason or the other. The following table indicates the comparative position of central financing agencies at the end of 1929-30 and 1936-37.

	1929-30	1936-37
	(Amounts in Lakhs)	
No. of Banks.	588	611
No. of Members :		
(a) Individuals.	90	85
(b) Societies.	1,01,499	91,293
Paid-up Share capital.	295	278
Other Owned Funds.	176	373
Loans & deposits.	**2619**	**2299**
(a) Individuals	1866	1659
(b) Societies.	224	300
(c) Provincial & Other Central Banks.	460	303
(d) Government.	69	37
Working Capital	3090	2950
Loans Made	**1779**	**914**
(a) Individuals.	86	125
(b) Societies.	1693	789
Loans outstanding.	**2460**	**1969**
(a) Individuals.	49	85
(b) Societies.	2411	1884

These figures indicate that there was an all-round decline in the number of members both societies and individuals, paid-up share capital, loans and deposits, working capital, loans made and loans outstanding, but the number of banks showed an increase

owing to the registration of fresh banking unions in some of the States and particularly in U.P. and Bihar.

9. **Period of Rehabilitation.** Considerable rot had set in in the co-operative movement as the result of the impact of the great economic depression, and the task of rehabilitation of the movement was by no means easy. The Reserve Bank of India, in its review of the co-operative movement in India in 1939-40, observed:-

"Surgical treatment alone—the writing off of bad debts, scaling down of other debts and fixation of instalments—will not cure the co-operative meovement of its ills and restore it to full health. The process of clearing up the past mess, and removing dead wood from the co-operative body, is only one part of rehabilitation; it prepares the ground for a new growth, but in no way obviates the need for proper observance of the indispensable rules of health, of the essential co-operative principles the neglect of which was responsible in no small measure for the plight that overtook the movement when adversity succeeded prosperity......It appears, indeed, that the pace of expansion before depression had been too rapid to have been really sound and contained within itself the seeds of subsequent collapse. It had 'outrun co-operative education."

10. **The Reserve Bank of India and Co-operative Finance.** It has already been indicated in a previous chapter that during this period detailed inquiries had been conducted through committees and commissions in various provinces and that the reports submitted by them had recommended the adoption of certain measures of reorganization. The Provincial Governments were enabled to take measures for the rehabilitation of the movement on the basis of those recommendations. Fortunately, this period also witnessed the establishement of the Reserve Bank of India and the outbreak of the Second World War which proved a beneficent influence for the rehabilitation of the movement, as indicated already. The Reserve Bank of India, as the Central Bank of the country and charged with the duty of guiding the co-operative movement on sound lines, issued in 1939 a comprehensive circular addressed to all Central and Provincial Banks under the title of "Reorganization of the Co-operative Movement on Bank-

ing lines" with a view to persuading the central financing agencies to follow sound banking prinicíples in their working. A few extracts on important points from this circular are quoted below:—

"(1) **Limit of Finance and Investment of Funds.** It appears desirable that Provincial and Central Banks should advance loans up to 50-55 per cent of their deposits and invest the remaining ussets in cash and gilt-edged securities. Cash and balances with banks may form about 10 per cent of the deposits. At least 30 to 40% of the deposits should be invested in Government securities. The above ratios may be expressed in a tabular form as follows:—

	Percentage to deposits
(1) Cash, cheques in the course of collection and balances with other banks.	10
(2) Investment in Government Securities and Treasury Bills.	30 to 40
(3) Loans and Advances.	50 to 55

(2) **Period of Loans and thier Prompt Recovery**:- We have already said that commerical banks do not generally lend for periods longer than six months. We would also like the co-operative banks to follow a similar practice, although in their case the normal period of repayment might be nine months. The co-operative banks should attempt, as a general principle, to avoid long-term business, and when loans longer than nine months are found necessary, care should be taken to ensure that the total amount of such loans does not exceed the paid-up capital and reserves. At the same time it is necessary to see that the maximum does not become the minimum and loans intended to be short-term do not become long-term by being allowed to remain overdue. Prompt measures should be taken to recover overdue debts.

(3) **Overdue Debts**:- Overdue loans should be shown separately in the balance sheet as in the form recommended by us to the Provincial Co-operative Banks.

(4) **Avoidance of Fictitious Repayments.** It is clear that unless the practice of fictitious repayments is stopped, it is not

possible to make a correct appraisal of the assets of co-operative banks nor can the banks effectively improve the economic condition of their members.

(5) **Disclosure of Bad and Doubtful Debts.** We might also mention the necessity of a bank knowing the exact position of its bad and doubtful debts. Where such information is not available, it is desirable that immediate steps should be taken to collect it.

(6) **Linking of Borrowing and Lending Rates.** At the present time the rates of interest prevalent in the co-operative movement are in a chaotic state with the result that some banks have unknowingly been living on their capital. The loan and deposit rates of central banks should be linked with the loan and deposit rates of the Provincial Bank, which in its turn should be linked with the bank rate, so that there may be an organic structure of rates throughout the co-operative movement. A co-operative bank should not as a rule accept deposits for periods longer than a year or two at the most. Rates of interest on deposits should not be higher than the bank rate. Current accounts may be introduced where they do not exist.

(7) **Appropriation of Profits.** All co-operative societies should *carry* at least one-third of their net profits annually to reserve fund until it equals the paid-up share capital, and thereafter at least one-fourth of the net profits. The spread between the borrowing and the lending rates of co-operative banks should be sufficiently wide to speed the building up of reserves. Moreover, the reserve fund should always be constituted out of realized profits and invested outside the movement.

(8) **Conclusion.** Sound banking is the result not so much of banking rules as of good bankers. It is, therefore, essential that the central co-operative banks should employ an efficient, well-paid staff trained in the theory and practice of banking. The Provincial Co-operative Banks should exercise a close watch over the working of the central co-operative banks to ensure that the latter follow the lines laid down in the circular."

The Reserve Bank's advice to central banks in the Circular referred to above, explaining in what manner they might conform

to banking principles and practices was criticised not only on co-operative platforms but also in the press. Its suggestion not to accept deposits for a period longer than a year or two was considered to be definitely unsound, in view of the peculiar features of agricultural finance which often tends to be medium and long-term owing to reasons beyond the control of the farmer. As regards the ratios in which the funds are to be invested, Shri Ramdas Pantalu, in his article contributed to the April-June Issue of the All-India Co-operative Review, pointed out that the suggestion was definitely unworkable not only in the Province of Madras but elsewhere also. He wrote : "The Reserve Bank however, have not indicated anywhere in their circulars what margin they consider would be necessary between the borrowing and the lending rates of these banks in order to be able to work on the basis of limiting their advances and loans to 50 to 55 per cent of their deposits and of investing remaining funds in gilt-edged securities and cash. In the Province of Madras, the average borrowing rate of the co-operative financing banks is now 2 per cent and their average lending rate to societies is 5 per cent. In fact, these are the general rates now obtaining. There has been for some years past a growing demand from co-operators to reduce the lending rate to the borrowers. Some years ago, our lending rate to the members of societies, i. e., the ultimate borrowers, was 2 pies in the rupee or 12½ per cent. We brought it down to 1½ pies in the rupee or 9-3/8 per cent. Later the rate was reduced to 1-1/5 pies in the rupee or 7½ per cent. But there is a universal demand, almost irresistible, to bring it down to one pie in the rupee or 6¼ per cent. This is the highest rate of interest allowed to be charged to agriculturists by moneylenders under the Madras Agriculturists' Relief Act. It will be obviously impossible for co-operative credit societies to charge a rate higher than that permitted to be charged by moneylenders. So any scheme of co-operative credit in this province must take note of the fact that the ultimate borrowers cannot be charged more than 6¼ per cent. The proportions of the resources of the co-operative banks prescribed for investment by the Reserve bank as stated above, cannot in my opinion, be adopted without reference to the borrowing and lending rates, the margin of profit and other relevant considerations which vary from province to province and from region to region in

the same province. On the basis that the Co-operative banks pay 3 per cent. on their deposits and lend 50 per cent. thereof at 5 per cent. to constituent societies and invest 40 per cent. in liquid securities which fetch on an avereage 3 per cent., we arrive at the following figures:-

Interest Receivable:-	
Rs. 50 lent at 5 per cent. will fetch	Rs. 2.5
Rs. 40 invested at 3 per cent. will fetch	Rs. 1.2
Rs. 10 cash	Nil.
	Rs. 3.7
Interest payable...	Rs. 3.0
Margin	Rs. 0.7

No allowance is made for depreciation in the value of gilt-edged securities and the assumption of 3 per cent yield on the 40 per cent of liquid investments errs if at all on the side of over-estimate and not under-estimate.

I have worked out figures for the 32 central banks in the Provinces of Madras for the year 1937-38 on the above basis, as suggested by the Reserve Bank of India. The result is shown in a tabulated form in the accompanying statement. It will be seen from the statement thet very few banks will be able to meet their normal expenditure from the margin. It is needless to point that nothing will be left to pay a dividend even at 4 per cent to their shareholders after meeting their expenditure. It will also be seen that no provision can be made for adding anything to the statutory reserve fund in accordance with the practice hitherto followed by these banks. It, therefore, appears to me that the advice of the Reserve Bank in regard to the proportion of investments in loans, gilt-edged securities and cash will not work, at any rate, in the Province of Madras. Without the balance sheets of other Provincial and Central Banks, it will not be possible for me to state they how will work in other provinces. My owni mpression is that the scheme will not work anywhere."

If the proportion of 55 per cent of loans and 35 per cent of liquid investments is taken, the margin will be 0.8 and it makes no difference.

Despite the criticism levelled against the circular, it had one good effect and that is, co-operators had to do much re-thinking which ultimately led to the improvement of the system of co-operative banking.

11. **Impact of War on Central Financing Agencies.** As already mentioned, the chief effect of War on co-operative movement was the shift of emphasis from credit to productive and distributive functions. The financial help rendered by the State Governments for the rehabilitation of the co-operative movement imparted financial strength to the central financing agencies and the progress recorded was quite substantial, as could be seen from the following comparative table.

	1938-39	1954-46
	(Amounts in lakhs)	
1) No. of Banks.	594	601
2) Membership:		
(a) Individuals.	81,347	80,423
(b) Societies.	96,106	1,18,094
3) Owned capital.	665,26	845.12
4) Borrowed funds.	442.81	396.22
5) Deposits.	1834.12	3266.16
6) Working Capital.	2942.19	4507.50
7) Fresh advances made:		
(a) Individuals.	136.07	543.52
(b) Banks ansd societies.	914.51	3763.75
8) Repayments:		
(a) Individuals.	140.54	500.52
(b) Banks & Societies.	854.70	3696.44
9) Loans outstanding.		
(a) Individuals.	76.98	183.18
(b) Banks & Societies.	1915.51	1863.16
10) Profit or loss.	39.00	54.00

These statistics indicate that there was a slight increase in the number of banks, but the individual members decreased slightly. There was, however, a substantial increase in the number of society-members. There was a substantial improvement in the capital structure with a continuous rise in the amount of owned

funds. Working capital rose from 29 crores to 45 crores, But loans outstanding remained unchanged. Recoveries were considerably better. Much of the progress that was recorded was noticeable in a few provinces like Madras, Bombay, Bengal and Punjab. Even among these four States Bombay and Madras led the rest.

12. **Post-Independence Period, from 1947-1954** :— The post-war period which coincided with the post-Independence period, is packed with events of great economic significance in the co-operative movement. The non-credit activities of the co-operative movement had expanded considerably during the War period, with the result that there was a great demand for funds on co-operative financing agencies. This was particularly noticable in the Bombay State. In Madras, as a result of the co-operatives acting as agents of Government for procurement of foodgrains, there was a great demand for funds. In a few states like Bihar and Assam, Central financing agencies were engaged in trading activities to the detriment of their legitimate work. In Madhya Pradesh the Banks undertook commercial activities. The year 1947 is memorable for the partition of this country and the co-operative banks in border states like Bengal and Punjab received rude shocks and the whole system of co-operative finance had to be built afresh. The Co-operative Planning Committee, which had been appointed by the Government in 1945 to draw up a plan of co-operative development, submitted its report, and the lines of future development of the co-operative movement drawn up by it were finalized after discussion at the Conference of the Registrars in 1947. Earlier the Gadgil Committee had recommended the formation of Agricultural Credit Corporation in each province for the provision of all types of credit to co-operatives. This recommendation was stoutly opposed by the Co-operative Planning Committee, which observed: "We are of opnion that not only in some provinces where the co-operative movement has attained a high degree of development, but also in other provinces and states, the Provincial Co-operative Banks or central co-operative financing agencies can provide the agriculturists with all the facilities which are intended to be given by the Agricultural Credit Corporation. The same measure and type of aids as those recommended to the Agricultural Credit Corporation should be given to the Provincial Co-operative Bank and there would be then no

need to start a separate organization for this purpose." It was during this period that the Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India laid down certain standards for the recognition of central financing agencies. The following tentative suggestions were put before the various States for their consideration:—

(a) **Structure**. As a general proposition there should be one central bank for one district. If, however, in particular areas the financial and other considerations justify the establishment of a bank for a region smaller than a district, there is no objection to a central financing agency being formed for such smaller area.

(b) **Branches of Apex Banks.** Other things being equal, the establishment of a central bank should be preferred to the branch of a State Co-operative Bank.

(c) **Capital.** A central financing agency operating for a whole district should normally have a paid-up share capital and reserve of about Rs. 3 lakhs. If a central financing agency is proposed to be organized in a district the Registrar may consider what should be the corresponding minimum.

(d) **Local Deposits.** A central financing agency should be able to secure local support both in the shape of non-official workers and of local deposits. It should depend to the maximum extent possible on its own resources and only for the residue on the Provincial Bank.

(e) **Working Capital.** A central financing agency should normally aim at having an approximate working capital of Rs. 20 to 25 lakhs within a reasonable time of its starting.

(f) The requirements of the tract should be ascertained before a central financing agency is organised. The capital structure should be based on such requirements. Account should be taken in this connection of the number of uneconomic branches which the central financing agency may have to start initially.

(g) **Administration.** The manager or administrative officer appointed to supervise and inspect the affiliated societies should possess adequate qualifications and should have previous experience

in banking and agricultural finance. The central financing agency should have a certain minimum staff as suggested below :—

Manager.	1.
Assistant Manager or Accountant..	1
Inspectors or officers for agricultural finance.	2

(h) **Help from Provincial Bank.** If a central financing agency requires an adviser for agricultural finance, the State Co-operative Bank should normally be prepared to make available such a person from amongst its staff, for a minimum prescribeed period, e. g., one year.

(i) **Establishement of new organizations.** When a new central financing agency is proposed to be organized in the area served by the State Co-operative Bank before preliminary steps are undertaken in the area, the State Co-operative Bank should be prepared to transfer or lend approximately the staff employed in that area, thus making available to the new organized central bank its minimum requirements of experienced and trained personnel.

(j) **Inspection.** If after inspection of a central financing agency the State Co-operative Bank is satisfied that the management of a central financing agency or its financial position has deteriorated and is likely to adversely affect the system of agricultural finance in that area, it may advise the Registrar to take appropriate steps including that of appointing an officer to administer or manage the bank's affairs.

13. **Maintenance of Standards of Fluid Resources.** Similarly, the Standing Advisory Committee on Agricultural Credit laid down the following standards of fluid resources and recommended the same for adoption bycenrtral financing agencies is all the States.

(A) Standards of Fluid Resources :—

1. 40 per cent. of deposits at call or on current account and cash credits and overdrafts sanctioned but not drawn.
2. 25 per cent of savings deposits.

3. 25 per cent of fixed deposits maturing within the next three months.

4. $12\frac{1}{2}$ per cent of fixed deposits maturiing after the next three months but within the next six months.

Note.— Where the reserve fund of a society is invested in a co-operative bank for an indefinite period, e. g., where it cannot be drawn except with the permission of the Registrar, no fluid resource need be maintained by the bank concerned against such deposit.

(B) The form in which fluid resources may be maintained and the extent to which they can be regarded, as fluid resources are given below :—

(1) Cash on hand. (2) Balance with Banks. ... (3) Balance with P. O. S. Bank.	100 per cent. each.
(4) Government Securities including P. C. C. and N.S.C. ...	90 per cent of their market value.
(5) Debentures of land mortgage banks and other Trustee Securities like Muncipal Loans etc. ...	80 per cent of their market value.
(6) Fixed Deposits with other Banks approved by the Registrar. ...	80 per cent of their value.

The tendency among central co-operative banks in certain areas to treat clean cash credits sanctioned by the State Co-operative Bank as part of their flüid resources is deprecated, as the practice is incorrect and unsound.

In regard to these standards, three different issues have been raised by three different States : (1) Liabilities within the Movement should be excluded while calculating fluid resources. (2) The standards proposed by the Reserve Bank of India are more rigid than what are in force in some states. (3) The condition of providing fluid cover to the extent of 40 per cent of the undrawn cash credits granted to constituents is harsh. Further, it is inconsistent with the condition that the cash credit granted by the

State Co-operatve Bank should not be treated as part of the fluid resources of the central banks. The first issue was raised by the Madras Government and the grounds adduced were :—

(1) A co-operative society which receives deposits from individuals and institutions provides for fluid resources, which it re-deposits with another society. It will be redundant for the other society to provide cover for such deposits, as it has already been provided for at the primary stage. To take an instance, it is customary for the State Co-operative Bank to receive deposits from co-operative central banks. As the co-operative central banks maintain fluid resources in respect of their deposits, it is superfluous for the State Co-operative Bank to maintain fluid resources for the same deposits.

(2) The underlying principle in the maintenance of fluid cover is to protect the interest of depositors for, in case the central bank fails to repay the deposits on maturity, public confidence in the integrity of that institution may be impaired by tendentious reports. But in case of co-operative societies, built on the principle of mutual help, one society will not act in any manner prejudicial to the interests of another sister society. In cases where the claims between the societies are in dispute, they can be settled through the Registrar.

(3) The normal loan transactions of co-operative societies cannot be carried on if a major portion of their working capital is kept in a liquid state.

To these arguments it may be replied as under :—

"Theoretically speaking, it may be stated, taking the instance given by the Madras Government, that the deposits kept by the central Co-operative bank in the State Co-operative Bank themselves constitute part of the fluid resources of the former and should be available to them, when required. If this is conceded, then it stands to reason that the apex bank should maintain adequate fluid cover in respect of deposits from central banks also if they are to be honoured on demand. To this the Government's answer is given in the second point. But occasions may arise when the central banks may have to demand payment of their

deposits on account of heavy demand of an unexpected nature or a run without any intention whatsoever to act in a manner prejudicial to the interests of the apex institution. It is only to guard against such contingencies that fluid cover has been suggested in respect of all deposits, whether they are within or outside the movement. Again, it is necessary to note that the term 'liabilities within the movement' would mean the deposits not only of co-operative banks which keep fluid resources but of all-co-operative societies—credit and non-credit. Any of these societies might want to withdraw their deposits like individual depositors. Thus it would be seen that a co-operative society may not act prejudicially against the interests of another co-operative institution, but it has to honour its obligations to its individual members and depositors, when called upon to do so. If for lack of adequate fluid resources, its co-operative banker is unable to refund its deposit, it cannot wait for the matter to be settled by arbitration. Further, fluid resources are not only intended to meet emergencies or runs but are also intended to meet ordinary demands of a banking nature. As the structure goes up from tier to tier, a smaller portion of the total funds is kept fluid. If even the existing standards are considered excessive, taking into account the nature of co-operative banking, they may be lowered, but complete exclusion of liabilities within the movement would appear to defeat the very purpose underlying the maintenance of fluid resources. Again, an emergency, although not common, cannot be ruled out. If a run takes place, all the units in the co-operative chain will be affected and if fluid resourcess are not adequately provided for at the various levels, the whole mechanism will be disrupted. Thus it will be seen that the standards suggested by the Agricultural Credit Department are by no means unduly high or rigid and are based on the normal banking principle of having adequate fluid resources at various levels to meet any demands that may arise. In the case of Madras, its experience for the last fifty years is that there has been no run on any of the central co-operative banks there. Emergencies of the type have not arisen at all. Further, central co-operative banks keep only their reserve fund as fixed deposits with the State Co-operative Bank. Where more funds are kept as deposits, they are more or less permanent surpluses which will not be

needed normally. The fact is that central co-operative banks pay higher rate of interest on their deposits than what the State Co-operative Bank gives to them on their fixed deposits. Therefore, they do not invest the fixed deposits they receive as fixed deposits in the State Co-operative Bank, unless these funds are redundant for their normal working. Even in regard to current deposits, the central banks do not keep current deposits with the State Co-operative Bank because the State Bank of India is available to them at their headquarters, and the current accounts are more readily available to them with the State Bank of India than with the State Co-operative Bank. Thus in the case of Madras, immediate enforcement of standards laid down may cause considerable hardship. While suggesting that their standard should also gradually fall in line with the standards suggested for the whole country, the present system may be allowed to continue for some time more. The actual programme of changes in the system may be worked out by the Agricultural Credit Department of the Reserve Bank of India in consultation with the Registrar of Co-operative Societies, Madras."

As regards the second issue, it is raised by the Government of Travancore-Cochin. The standards of the State Co-operative Bank in respect of current, savings bank and fixed deposits maturing within the next six months are higher than the standards fixed by the Standing Advisory Committee on Agricultural Credit. But no provision is made for fluid cover in respect of fixed deposits which have already matured. As these can be drawn upon at any time, cent per cent cover is required to be kept against them. The real difficulty arises out of the necessity to provide for fluid resources against undrawn portion of cash credits. This point is raised in the case of the Central Co-operative Banks in Uttar Pradesh where standards are satisfactory in respect of provision against current and savings deposits, but no provision is made for undrawn cash credits and matured fixed deposits. The arguments of the Registrar, Co-operative Societies, U. P., were :—

"In the case of a district central co-operative bank, it has been suggested that the bank should maintain 40 per cent. of the

cash credits sanctioned to its members according to the formula fixed by the Reserve Bank of India, but the cash credit sanctioned by the U. P. Co-operative Bank to the district bank should not be regarded as fluid cover. The central idea in the Uttar Pradesh Registrar's letter revolves round the issue, viz., whether the undrawn portion of cash credit sanctioned by the State Co-operative Bank can be treated as part of fluid resources available to the central co-operative bank. If this is conceded, the central bank will have no difficulty in providing for 40 per cent. of the undrawn cash credit granted to its constituents. If, however, this point cannot be conceded, then the other alternative would be to absolve central banks from providing to the extent of 40 per cent. of the undrawn portion of cash credits granted to their constituents in the existing context.

14. **Formation of Uniform Standards of Audit Classification for Central Co-operative Banks.**—In order to achieve uniformity in regard to the appraisal of the working of a central bank, the Standing Advisory Committee on Agricultural Credit has laid down standards for classification of central banks at audit as shown below :—

'A' Class Central Banks :—Conditions prerequisite to a central bank being put in 'A' class are :--

(a) The arrears under principal should not exceed 20% of the demand and arrears under interest should not exceed 5% of the demand.

(b) Bad debts and half the doubtful debts should not exceed the bad debts reserve.

(c) The short-term liabilities of the bank should not exceed the short-term investments excluding overdues.

(d) The fluid resources should be maintained according to the standards laid down throughout the year.

(e) At least 65 per cent. of the loans issued during the year should be for short-term purposes.

(f) Not more than 35% of the co-operative societies indebted to the bank should be defaulters.

(g) The bank should have earned a profit, the management should be efficient and the staff qualified.

' B ' Class Central Banks :—(1) These banks should satisfy conditions Nos. (c), (d) and (g) applicable to banks in ' A ' class.

(2) The arrears under principal should not exceed 40% of the demand and the overdue interest should not be more than 10 per cent. of the demand.

(3) Bad and doubtful debts should not be more than the bad debts reserve and statutory reserve fund.

(4) Not less than 40 per cent. of the loans given to societies during the year should be for short-term purposes.

(5) Not more than 50 per cent. of the societies indebted to the bank should be defaulters.

' D ' Class Central Banks :—(1) The overdues under principal exceed 60 per cent. of the demand and under interest exceed 15 per cent. of the demand.

(2) The bad and doubtful debts exceed the owned funds, i. e., the bad debts reserve, the reserve fund and the paid-up share capital.

(3) The required standard of fluid resources is not maintained on several days during the year.

(4) The long-term and the medium-term loans issued during the year exceed 75% of the loans issued to societies.

(5) More than 60 per cent. of the societies indebted to the bank are defaulters.

(6) The bank has worked at a loss and the management is not satisfactory.

' C ' Class Central Banks:—All banks which do not come under ' A ', ' B ' or ' D ' class may be regarded as in ' C ' class.

In view of the fact that at present the needs of central co-operative banks for medium-term finance are largely met by the Reserve Bank of India; clause (e) of the standards suggested for 'A' class banks may be revised to read as " at least 50 per cent. of the loans issued during the year should be for short-term purposes. "

15. **Reorganization of the Co-operative Movement and the Reports of the Officials of the Reserve Bank** :—It is a happy sign of the period that the Agricultural Credit Department of the Reserve Bank of India took a live interest in the matter of reorganization of co-operative credit not only in less developed states but also in some of the Part 'A' and Part 'B' States as well, by deputing its Research Assistants to study the movement in close quarters and to suggest future lines of progress. The Reports submitted by the officials of the Agricultural Credit Department in so far as they relate to the reorganization of central banks in several states are briefly summarised State-wise in the following paragraphs :—

(1) **Assam.** The existing central banks which are in a moribund condition should be reorganized after a detailed study. The question must be considered bearing in mind the following factors :—

(i) Closing of branches of apex banks.

(ii) Amalgamation of central banks in suitable areas.

For the reorganization to be successful there must be State-aid by way of contribution to the share capital and grant of subsidies to meet establishment expenses for a specific period.

(2) **Ajmer.** Only such of the banking unions may be retained as are working satisfactorily. Where they are weak, or where they do not exist, branches of the apex bank may be opened.

(3) **Bihar.** (i) The separation of trading from banking recommended in the case of the apex bank applies with equal force to central banks also. Trading activities of these banks may be transferred to District marketing federations to be formed for the purpose.

(ii) They must make serious efforts to attract local deposits.

(iii) The number of central banks should be reduced considerably so as to have one central bank for each district, by weeding out uneconomic and bankrupt banks, by amalgamating small ones in the neighbourhood or by their reorganization on a wider basis.

(iv) Maximum borrowing power of the bank should be linked up with their owned funds.

(4) **Bhopal.** In view of the small size of the State, a unitary system for the credit structure of the co-operative movement with the apex bank at the top (with branches at suitable centres) and primaries at the bottom, without the intermediary of central banks or banking unions, has been recommended.

(5) **Hyderabad.** The number of central banks must be cosiderably reduced so as to have one central bank for each district. There will then be 16 central banks (as against the present 46) , the remaining banks being allowed to function as their branches.

(ii) They should make efforts to tap local deposits by opening current accounts for the public.

(iii) Their reserve funds should be invested in Government securities.

(iv) Central banks must maintain fluid resources registers.

(v) The staff should be properly trained in co-operative banking.

(6) **Himachal Pradesh.** (i) The four banking unions in the State are uneconomic units.

(ii) Even the central banks are small institutions and these may, therefore, be merged with the proposed apex bank. The financial structure of the movement would be of the unitary type consisting of the apex bank at the top and primaries at the bottom; the apex bank may establish branches to serve the primaries in different parts of the State.

(7) **Madhya Bharat.** (i) There should be one central bank in each distirct as a rule. Re-grouping of the banks may be necessary with a view to eliminating weak and uneconomic banks.

(ii) Central banks should have a minimum paid-up share capital of Rs. 50,000/- Those banks whose paid-up capital falls below this minimum should make efforts to reach that level as early possible.

(iii) They may accept all types of deposits.

(iv) Loans to individuals including hundi-business should be limited to one-fourth of the total advances of the banks.

(8) **Mysore** :—The three central banks in the State are now in the process of liquidation. It has been pointed out that the "Taluka Multi-purpose Society" is not an appropriate agency for disbursing agricultural credit and cannot take the place of central banks, as they combine trading with banking. The taluka multi-purpose societies can usefully function as loan and sale societies. It has been suggested that a decision may be taken on the nature of the intermediate financing agency suitable to the conditions in the State after a study of the system of central banks in Madras and of branches of the State Co-operative Bank in Bombay.

(9) **Orissa.** (1) A drive to collect more share capital is necessary.

(2) Banks should strengthen their statutory reserves. At least one-third of the profits may be set apart till the reserves equal the paid-up share capital.

(3) Banks should build up their bad debt reserves which may be invested separately.

(4) The central banks which will be handed over to shareholders for management may be allowed to accept deposits on current accouts, if they have a qualified staff.

(5) Overdues should be brought down.

(6) Affiliated societies might be asked to invest their reserve funds in the central banks.

(7) Short-term loans should predominate over medium-term loans.

(8) Trading and banking should not be combined under any circumstances.

(10) **Punjab** 1. These Banks should give up trading activities like distribution of sugar, cloth, etc. The more desirable form of development will be to organize, where conditions require and justify, consumers' co-operative societies, primary and central, and entrust the distribution of consumer goods, including controlled commodities, to such organizations.

2. Efforts should be made to eliminate the predominance of individuals in the directorates.

3. Non-official co-operators should be elected as chairmen in place of official chairmen, where conditions permit.

4. 42 banking unions and 23 central banks are too many for 13 revenue districts in the State. Therefore, re-organization of the central banks and banking unions on a wider and stable basis may be taken up. One central bank for one revenue district seems *Prima facie* suitable, but local conditions may justify departure from this formula.

5. Fluid resources register should be maintained.

(11) **Pepsu :** The central banks should be reorganized and the existing banking unions amalgamated with them so that eventually, there would be one central bank for each of the eight districts of the Union. Possibilities of having branches of the apex bank in districts, where conditions are not suitable for the early establishment of a central bank, may also be considered.

(12) **Rajasthan :** 1. A plan for the reorganization of central banks in the State was suggested in consultation with the Registrar, afer taking into account the needs of different regions, the development of the co-operative movement that has already taken place and the future possibilities of development.

2. Within a period of three years, the central banks should bring down the size of the commercial business to one-third of their total advances.

3. Advances to individuals may be confined to those against fixed deposits.

4. The banks may be allowed to accept all kinds of deposits.

5. Membership should be open to individuals as well as to societies.

6. Central banks should take part in the organization of co-operative societies in their area of operation, as well as in the supervision of the societies and guiding their working.

(13) **Saurashtra :** District co-operative banks may be organized, wherever possible, but where men and money are not forthcoming immediately, the apex bank may open branches for the time being. Taluka banks would be too small and would not serve the purpose. They may continue until the proposed district banks take over their work.

(14) **Travancore-Cochin :** Taluka banks are having predominance of individual members and are more fit to be converted into urban banks. The question of organising district central co-operative banks should be taken up at a later stage. Attention should, for the present, be concentrated on the formation of a strong apex bank which might open branches at district levels.

(15) **Uttar Pradesh :** 1. Their area of operation may be extended to a district and they may be allowed to open branches, if necessary. Several of them are uneconomic units and require to be re-organized on sound lines.

2. Re-constitution of the Board of Directors to include non-officials and representatives of the Registrar and the apex bank has been suggested.

3. Capital should be augmented, if necessary, with Government funds, through the apex bank.

4. Bad debt and other reserves need to be strengthened.

5. They must tap more local deposits; all banks must accept current and savings deposits. This will reduce their average borrowing rate.

6. Modern methods of book-keeping should be adopted and trained staff employed.

7. Fluid resources, according to the standards prescribed, should be maintained.

8. Central banks should give up trading activities.

9. Loans and advances may be confined to co-operative societies, excepting those against fixed deposits to individuals.

(16) **West Bengal :** 1. Uneconomic banks having no sizeable deposits and negligible owned capital should be either liquidated outright or amalgamated wherever possible. In case

a new central bank cannot be formed by re-organization the apex bank should open a new branch.

2. Inter-lending and trading activities should be stopped.

16. **Position of Central Co-operative Banks at the end of 1954.** The subjoined table gives the comparative position of the central financing agencies at the end of 1951-52 and 1953-54, and staatewise account of their working is given at the end of this chapter.

	1951-52.	1953-54.
	(Amounts in	lakhs)
(1) No. of Banks.	509	499
(2) Membership :		
(a) Individuals.	1,18,406	1,21,911
(b) Banks & Societies.	1,12,912	1,25,994
(3) Owned Funds.	Rs. 980.69	Rs. 1,180.78
(1) Paid up Share capital.	462.15	600.36
(2) Reserves.	518.54	580.42
(4) Deposits.	3823.47	4119.22
(5) Other Borrowings.	1207.24	1311.09
(6) Working Capital.	6011.04	6611.09
(7) Fresh advances.		
(a) Individuals.	695.23	1249.37
(b) Banks and Societies.	9868.32	5221.04
(8) Recoveries :		
(a) Individuals.	717.04	1231.43
(b) Banks & societies.	9465.88	4931.04
(9) Loans outstanding.		
(a) Individuals.	305.55	318.98
(b) Banks and Societies.	3285.27	3507.94
(10) Overdues.	478.27	667.76
(11) Percentage of overdues to loans outstanding.	13.30	17.40

These statistics indicate a slight reduction in the number of central banks in pursuit of a policy to reduce the number of central

banks to the level of one per each district in various States. On the advice of the Standing Advisory Committee on Agricultural Credit, a policy of rationalization is now carried out and a further reduction in the number of central banks may be expected in future. In West Bengal, a Committee was appointed to enquire into the working of central banks and one of its recommendations was to bring down the number of central banks from 42 to 24. Similarly, in Hyderabad, it is proposed to reduce the number of central banks to 20 from 41. In Himachal Pradesh and Saurashtra, steps were taken to merge small central banks into apex institutions.

(2) **Increase in Membership.** Despite the decrease in the number of central banks a rise in individual membership is noticed. This is due to the fact that a heavy concentration on individual membership was noticed in the central banks of Bombay and Madhya Pradesh, which alone accounted for two-thirds of the total membership in all the States. In Bombay increase in membership is due partly to the admission as nominal members of agriculturists who are financed direct by central financing agencies under the integrated scheme of agricultural credit.

(3) **Rise in Share Capital.** There was a noticeable rise in the amount of paid-up share capital of central banks from Rs. 462.15 lakhs to Rs. 600·36 lakhs. The percentage of share capital in 1953-54 formed 9 per cent. of the working capital as against 7.7 at the close of 1951-52. This rise is partly due to the conscious efforts made in some States to strengthen the capital base of banks in pursuance of the policy of increase in share capital recommended by the Agricultural Credit Department of the Reserve Bank of India. But it may be noted that in most of the States the average share capital per bank was less than Rs. 1 lakh. In striking contrast to this position, the average figures in the case of Madras, Andhra and Bombay were Rs. 5.90 lakhs, Rs. 4.89 lakhs and Rs. 4.14 lakhs at the close of 1953-54. The bulk of the share capital was held by affiliated societies.

(4) **Reserves.** The statistics in this respect reveal that there was a small improvement in the position of statutory reserves. In the case of Madras, Bombay, Andhra and Saurashtra, the average amount of reserve fund per bank was as high as Rs. 3.35

akhs, Rs.1.90 lakhs, Rs.1.99 lakhs and Rs. 1.87 lakhs respectively. But in other States the average did not exceed Rs. 1 lakh, and in thirteen States it was noticed to be less than Rs. 0.50 lakhs. As regards the bad debts reserves, the position requires considerable improvement. In Bihar and West Bengal, the bad and doubtful reserves were inadequate to cover the estimated bad debts.

(5) **Increase in Owned Funds.** There was a rise of Rs. 2 crores in the amout of owned funds. Still many of the individual States were far from reaching the standard of Rs. 3 lakhs per bank recommended as a desirable minimum limit of owned capital by the Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India. It is only in four States, viz., Madras, Andhra, Bombay and Saurashtra, the standard has not only reached but also exceeded. The figures in this respect were Rs. 11.49 lakhs, Rs. 8.89 lakhs, Rs. 7.48 lakhs and Rs. 3·28 lakhs. A clear need is, therefore, underlined for strengthening the owned funds as the maximum borrowing limit of a central financing agency bears a definite ratio to its owned capital. The maximum limit is generally 10 to 12 times the owned capital but in Hyderabad and Ajmer States it was only 8 times the owned capital.

(6) **Deposits.** Though deposits showed a rise of about 3 crores in 1953-54, the entire increase was practically accounted for by the Bombay State where the increase was of the order of Rs. 2.28 crores. Some States registered a nominal increase, but in others there was actually a decline. The average amounts of deposits in four States,—Madras, Bombay, Travancore-Cochin and Andhra--were Rs. 45.74 lakhs, Rs. 45.07 lakhs, Rs. 33.47 lakhs and Rs. 27.17 lakhs respectively. The average amount of deposits for all States was Rs. 8.26 lakhs as against 7.54 in 1951-52. The examples of Bombay, Madras and Andhra should serve as a stimulus to other states in tapping local deposits, as no concerted efforts were made to attract deposits in most of the States. In the States of Assam and Bengal, however, there was a continued declining tendency..

(7) **Other Borrowings.** A steady decline was noticed in respect of borrowings from other sources such as the State co-operative Bank, the State Government, the Joint-stock Banks

etc. in the State of Madras, and the position was more or less similar in Bombay. But in other States, the trend in general was for borrowings to increase. Apex Co-operative Banks continued to be the main source of borrowings by the central co-operative banks. These borrowings were Rs. 11.67 crores at the end of 1953-54. In addition to loans from apex banks, the banks in the States of Madras, Punjab and Andhra had overdraft arrangements with the local branches of the state Bank of India, against Government and other Trustee Securities. In the Punjab, Government provided loans to the central financing agencies and such loans amounted to Rs. 21.84 lakhs at the end of 1953-54.

(8) **Working Capital.** A rise of about 6 crores in the working capital of banks was noticeable as a result of the increase in deposits and owned funds. The following table indicates the proportion of deposits, owned funds and borrowings to total working capital of central financing agencies during each of the two years viz, 1951-52 and 1953-54.

Year	Working Capital	Owned Funds.		Deposits		Borrowings.	
		Amount.	Percentage.	Amount	Percentage.	Amount.	Percentage
		Rs.		Rs.		Rs.	
				(Amount in lakhs)			
1951-52.	6011.40	960.69	16.3	3823.47	63.6	1207.24	20.1
1953-54.	6611.09	1180.78	17.9	4119.22	62.3	1311.09	19.8

These figures indicate that there has been no material change in the ratios of the various compontents of working capital to the total.

(9) **Average Working Capital.** The average working capital per central bank discloses a high level only in respect of Bombay, Madras and Andhra, where the averages were Rs. 56.37 lakhs, Rs. 75.66 lakhs and Rs. 55.57 lakhs respectively. In the remaining States the averages were much less. The reasons assigned for such low level are in the words of the Review of the Reserve Bank of India for 1952-54 were : " One of the principal

reasons for the low level of the working capital in many of the States might be the fact that the area of operation of certain central banks and unions was limited and the scope for increasing loan business was correspondingly restricted. In Madras and Andhra, the area was generally a revenue district. In Bombay also the area of operation of a central co-operative bank is usually a district, except that of a banking union whose area was only one or two talukas. In Madhya Pradesh, it was generally one or two tehsils and in Hyderabad two to four talukas. Banks in Orissa had generally an area of operations extending over a revenue sub-division while in Ajmer it was only half a sub-division. In Punjab, the area of operations of the banking unions was only a part of a tehsil. This drawback appears to have been realized in some of the States and a few of them were actively considering measures for the reduction of the number of central co-operative banks in their area by means of amalgamation or by weeding out weak institutions." From the explantion it is seen that by including banking unions having a smaller area than a district and central financing agencies having a revenue district in their area of operation, under one statement entitled 'Central Banks' an incorrect position of the Central Banks is presented for purposes of comparison in respect of their deposits and working capital etc. in various states. The Review also has not indicated anywhere the exact number of banking unions included in the statement in various States and their number must be apparently very large. By including incomparable units in the same statement entitled "central banks" and working out averages for the district central banks, the position in respect of average paid-up share capital, owned funds, deposits and working capital does not reflect the correct position in so far as the district central banks are concerned. If the aomaly is to be rectified, it is essential that two statements should be separately compiled, one for district central banks having the whole of a district as the area of operation and another for banking unions having a smaller area than a district. How the present method of tabulation of data in one composite statement under "Central Banks" gives an incorrect position of district central banks can be illustrated from the statistics relating to the district central co-operative banks in the Bombay State. From the

tables on page 25 and 27 of the said Review, showing the average amount of deposits and working capital per each central bank it will be seen that Madras and Bombay led all other States, in this respect. As between the two States of Madras and Bombay, the average amount has been worked out in Madras for 16 district central co-operative banks, each having a revenue district as its area of operation, while in Bombay the number of institutions for which the average amounts are worked out is 31, consisting of 19 district central banks—which are the only comparable units to their counterparts in Madras—five banking unions, four industiral co-operative banks and three other co-operative financing agencies in the merged areas at the end of 1953-54. These banks in the merged area had neither adopted the revised constitution of a central bank nor were they recognized as "Central financing agencies" accordidng to the Annual Administration Report on the Working of Co-operative Societies for 1954 in the Bombay State. The average amount of deposits and working capital per each of the four industrial co-operative banks included under "Central Banks" was Rs. 3.69 lakhs and 4.36 lakhs respectively, while in the case of five banking unions, the averages were Rs. 4.19 lakhs and Rs. 6.42 lakhs respectively. If for purposes of comparison, we excluded these 12 units included in the category of 'Central Banks', the average amount of deposits and working capital per each district central co-operative bank for the 19 banks in Bombay was Rs. 71.3 lakhs and Rs. 88.4 lakhs respectively, as they had at the end of 1953-54 aggregate deposits to the extent of Rs. 1352.02 lakhs and a working capital of Rs. 1679.8 lakhs. But in the tables they are worked out at Rs. 45.07 lakhs and Rs. 56.37 lakhs. In Madras the corresponding figures were Rs. 45.3 lakhs and Rs. 75.66 lakhs respectively. If the averages are worked out by including only the comparable units in both the States, viz., the district central banks having an area of operation extending over a revenue district, it will be seen that Bombay would lead all the other States, Madras taking the second place, but the places are reversed under the method of tabulation followed. Even if the banking unions could be shown under the statement, the averages will have to be worked out for 24 units and in that case the average amount of deposits and working captial per each of the 24 units would

work out at Rs. 57.7 lakhs and Rs. 71.8 lakhs respectively as against Rs. 45.07 lakhs and Rs. 56.37 lakhs shown in the tables. The same position would hold good also in the case of district banks having an area of operation over a district in other states.

(10) **Fresh Advances.** An important feature in the working of central banks was the sharp decline in the amount of fresh finance made to societies and banks and a steep rise in the amount of advances made to individuals. Both these trends will have to be regarded as unhealthy. The decrease in total advances was about the order of 4½ crores noticeable mainly in Madras, Andhra, Bombay, Uttar Pradesh and Jammu and Kashmir. Contrary to the declining tendency noticeable over the past few years, fresh advances to individuals increased sharply by nearly 5½ crores, the increase being mainly accounted for in Bombay and Madhya Pradesh. It is desirable that the banks should endeavour to bring down their business to individuals and increase the same to the societies, because the object of a central financing agency is to facilitate the operations of affiliated societies and not to promote the interest of individuals who are expected to go to primary societies for the satisfaction of their needs. An analysis of the advances made to societies and banks shows that the bulk of the advances was utilised by rural credit societies in the States of Andhra, Madhya Pradesh, Madras, Orissa, Uttar Pradesh, West Bengal and Hyderabad. Substantial amounts were also made available to marketing co-operatives in the States of Madras and Andhra. Similarly, large amounts were advanced to consumers' primary and wholesale stores in Madras.

(11) **Overdues and Bad Debts.** The position regarding overdues and bad and doubtful debts was on the whole not satisfactory. The total overdues rose to 6.68 crores. For this rise Madras, Andhra and Bombay were responsible to a large extent, these three States only accounting for as much as 3.35 crores of overdues. Bad debts also rose to Rs. 1.07 crores at the end of 1953-54. Of this amount Rs. 16.21 lakhs were contributed by Andhra, Rs. 21.01 lakhs by Bihar, Rs. 7.89 lakhs by Bombay and Rs. 8.48 lakhs by Madras. In the case of 29 banks in different provinces, it was noticed that the amounts

of bad debts exceeded the amounts available in the bad debts reserve.

(12) **Trading Activities.** During the War time and sometime thereafter central banks undertook the supply of rationed and controlled commodities on a commission basis, and these activities were continued in a few States like Bombay, Bihar and Punjab. They were, however, discontinued in States like Andhra, Madras, Hyderabad, Pepsu and Rajasthan etc. With conditions coming to normal with decontrol of food-grains, there would appear to be no justification for central banks for carrying on trading activities.

(13) **Financial Aid from Government.** Some of the State Governments continued to assist central financing agencies by means of loans and subsidies. In Bombay, Government contributed to the share capital of central financing agencies to the extent of Rs. 8.75 lakhs besides subsidising uneconomic branches to the tune of Rs. 35,000 up to the end of 1953-54. Similar subsidies were also granted by State Governments in Madhya Pradesh, Madhya Bharat, Andhra where the subsidies were utilized in reducing the rate of interest charged to constituents. In Pepsu, the Government contributed Rs. 1 lakh to the share capital of banks in addition to giving loans to the extent of Rs. 3.25 lakhs.

17. **The Working of a District Central Co-operative Bank.** It is now proposed to describe in brief the working of a district central co-operative bank in a co-operatively advanced State like Bombay in accordance with its bye-laws, more important of which are given below, together with explanatory notes, wherever necessary to throw light on different aspects of their working in actual practice.

(1) The name of the Bank is........................and its area of operation is..............district.

(2) **Objects.** The objects of the bank will be—

(i) To finance co-operative societies registered under the Co-operative Societies Act of..............and to carry on banking business with such societies.

(ii) To raise funds for the purpose of financing co-operative societies and individuals.

(iii) To act as a balancing centre for the surplus funds of affiliated societies.

(iv) To supervise, assess the credit and to arrange for the inspection of affiliated societies.

(v) To develop, assist and co-ordinate the work of affiliated societies.

(vi) To open with the permission of the Registrar, Co-operative Societies, Branches in suitable centres or localities.

* (vii) To arrange for the holding of periodical co-operative conferences and for taking necessary action pertaining to its own functions on the resolutions passed at such conferences.

* (viii) To maintain a library of literature on co-operation.

† (ix) On requisition from affiliated societies to purchase or sell on commission at their cost and risk, instruments of husbandry of every kind, all kinds of manure generally used in India and other agricultural requisites including insecticides, fungicides, etc.

† (x) On requisition from member-societies at their cost and risk to purchase and supply on commission raw materials and other articles required by members of industrial co-operatives and to sell on commission on behalf of members of such societies finished products delivered to the bank for sale.

(xi) To organize the provision of agricultural credit for creditworthy borrowers either through affiliated co-operative societies of which they are members or directly by enrolling them as nominal members until they are absorbed as members of agricultural credit societies.

(xii) To undertake the work of liquidation of affiliated societies indebted to the bank on conditions laid down by the

---

**Notes* : These are suggested as model by the Reserve Bank of India.

† These trading activities are now discouraged by the Reserve Bank of India and co-operative opinion is reconciled to the view that such activities should be undertaken by the District Marketing Federations or District Industrial Associations.

Registrar with a view to facilitating recoveries from them. To finance individual shareholders of the bank and generally to carry on banking business with them subject to such conditions as may be laid down by the Registrar, Co-operative Societies.

(xiii) To purchase, sell, transfer, endorse, pledge Government promissory notes, bonds, securities, Municipal and Port Trust bonds and debentures for the legitimate investment of surplus funds of the bank or for its shareholders or depositors without incurring any financial responsibility and to draw interest thereon and to do all such other things as are incidental to such business.

(xiv) To draw, accept, endorse, negotiate and sell bills of exchange and other negotiable instruments in accordance with the rules framed by the Board and approved by the Registrar.

(xv) With the previous sanction of the Registrar, to undertake and/or finance any business either singly or in co-operation with some other institution which would bring about better living, better business and better method of production amongst the members of the bank or members of affiliated societies.

3. **Interpretation clause**. A society means a co-operative society under the Co-operative Societies Act and admitted as a member of the central co-operative bank. A member includes a society unless the contrary appears from the context.

4. **Capital**. According to the model bye-laws suggested by the Reserve Bank of India, the capital of the bank shall for the present be Rs. made up of shares of the following types:—

———'A' class shares of Rs. 1000 each.
———'B' class shares of Rs. 100 each.
———'C' class shares of Rs. 100 each.

The value of each share shall be paid in one lump sum on admission or allotment. 'A' class shares shall be allotted only to the State Government or the State Co-operative Bank. The central bank shall have power to retire such 'A' class shares

at such times and in such manner as may be agreed upon at the time of the allotment of such shares.

'C' class shares shall be allotted only to individuals.

5. Every member shall on admission pay an entrance fee of Rs. ——. On every transfer of a share, a share transfer fee of Rs.——per share shall be payable.

A nominee, heir or legal representative is not a transferee liable for payment of entrance fee.

Note–The Standing Advisory Commsttee of the Reserve Bank of India has recommended that a Central Bank should have a minimum of share capital and reserves of Rs. 3 lakhs.

6. **Membership**. Every co-operative society registered within the area of operation of the bank and the State Government or the State Co-operative Bank shall also be eligible for admission as a member. Any individual over 18 years of age and who is of sound mind and who is not otherwise legally incompetent under any law for the time being in force shall also be eligible for admission, provided that not more than——shares shall at any time be allotted to individuals.

7. Members of primary societies other than urban banks and sale societies affiliated to the bank requiring finance against agricultural produce or valuables or persons who are not members of any credit society, but whose debts have been adjusted by the Debt Adjustment Board or a Court under the Bombay Agricultural Debtors Relief Act, or persons who are parties to the proceedings under the said Act requiring finance for crop or against agricultural produce or valuables or a creditworthy agriculturist requiring finance for agricultural and other purposes may be admitted by the Board at its discretion, to the nominal membership of the bank, until they are absorbed as members in credit societies, provided that such nominal members shall not be required to hold shares but will pay an entrance fee of Re. 1 each. Such nominal members will have no right to vote or to participate in the management of the bank or in the distribution of profits. They will also incur no liability in the event of the winding up of the affairs of the bank. They may, however, be permitted

to attend the general meetings of the bank and express their views at the meeting.

8. A member shall have only one vote at a general meeting even if he attends it in more than one capacity.

9. No member shall exercise the rights of membership unless he shall have paid all calls on shares and all other moneys due to the bank and a delegate of an affiliated society is prohibited from exercising the rights on behalf of the society if that society if suspended under the bye-laws of the bank.

10. The liability of the members for the debts of the bank is limited to the balance, if any, unpaid on the shares held by them.

11. An affiliated society ceases to be a member of the bank

(i) If it is expelled,

(ii) if it is dissolved,

(iii) if it transfers all shares held by it.

(iv) if the shares held by it are forefeited for non-payment of calls on shares.

12. An individual ceases to be a member, (1) on death, (2) expulsion or bankruptcy, (3) transfer or forfeiture of all shares held by him and (4) on permanent removal from the district, provided that no member shall cease to be a member under clauses (2), (3) or (4) until all the liabilities outstanding against him are paid off.

13. The Board of Directors may suspend an affiliated society—

(1) if there is a persistent mismanagement of the affairs of the society :

(2) if there is a persistent default in repayment of a loan or on commission of any act likely to injure the interests of the society.

(3) If there is a deliberate violation or disobedience of the rules drawn up by the Board of Manangement for the guidance of affiliated societies.

14. **Funds.** The central bank derives its funds from the following sources:—

(1) Share subscriptions.
(2) Deposits.
(3) Other borrowings.
(4) Entrance fees.
(5) Subsidies from Government.
(6) Miscellaneous.

(A) **Deposits : Current Accounts :** The Board of Management may receive deposits or loans at its discretion either from members or others and it shall be open to it to settle the terms on which deposits or loans shall be taken. The reserve funds of co-operatives are received as deposits where investment of such funds outside the business of societies is compulsory. In view of the need for providing facilities for banking service, central banks accept current accounts for business purposes and allow the accounts to be operated upon by means of cheques. They are, however, required to maintain an adequate standard of fluid resources prescribed from time to time by the Reserve Bank of India. This involves loss of interest and that is why interest allowed on current accounts is low. In view of the responsibility involved also the Banks insist on the introduction of the depositors before opening current accounts, so that they might be assured that the depositors are of men of means and integrity. In order to avoid the multiplication of petty accounts, the banks usually insist upon compulsory maintenance of some minimum balance in the accounts ranging from Rs. 100 to Rs. 500. Another method to discourage petty accounts is the levy of incidental charges ranging from Rs. 3 to Rs. 5 for every year in the case of an account where the prescribed minimum balance is not maintained or the minimum prescribed interest is not earned.

(B) **Savings Accounts.** Unlike current accounts, savings accounts are intended to promote thrift among depositors by making small savings possible among them. Operations on these accounts are generally allowed once a week. In view of this factor, a slightly higher rate of interest is allowed. It is paid

on the minimum balance to the credit of an account between any date in the first week of the month and the last working day. As withdrawals are now permitted by means of cheques on these accounts, by some banks, proper introduction of depositors is obtained while opening accounts, though the practice is not rigidly followed.

(C) **Fixed Deposits**. The banks accept fixed deposits the maturities of which vary according to the needs and requirements and higher rates of interest are paid on deposits fixed for a period longer than one year depending on the competition of other local banks in the area.

(D) **Borrowings**. When banks fail to get the requisite amounts of local deposits to satisfy their requirements, they resort to borrowings from the Provincial Co-operative Bank which often take the form of cash credits and overdrafts against Government and other Trustee Securities. They also get financial accommodation from joint stock banks locally situated against Trustee Securities which serves as a fluid resource against demand liabilities.

15. The Genreral Body of a central bank shall consist of the following:—

(1) Individual shareholders.
(2) Affiliated societies which are admitted to membership.
(3) Representatives of the State Government or the State Co-operative Bank.

Each affiliated society—excepting a society in liquidation—shall appoint a delegate at its general meeting from amongst members who are not in default to the society for a period exceeding three months. A delegate ceasing to be a member of his society or whose delegation is withdrawn by the society or who defaults in his society in respect of a loan taken by him shall cease to be its delegate. Every delegate shall hold office for a period of three years or until his successor shall have been appointed, provided that it shall be competent for any society at any time to remove its delegate and appoint another. Each member of the general body shall have only one vote.

16. The ultimate authority in all matters relating to the general administration of the bank shall vest in the general body. The general body shall not, however, interfere with the actions of the Board of Management or the Executive Committee done in the exercise of powers conferred on them by the bye-laws. A meeting of the general body of the bank shall be convened by the Manager pursuant to a resolution by the Board or the Executive Committee, if such power is delegaeed to it. The annual general meeting shall be held before the end of the quarter after making up the accounts at the close of the co-operative year.

17. The following among other matters shall be dealt with by the general body :—

(1) Consideration of the annual report and the statement of accounts and review of the work of the bank during the past year.

(2) Election of directors in the manner prescribed in the bye-laws or election rules specifically framed for the purpose.

(3) Consideration of all subjects which affect the financial position of the bank and passing resolutions with regard to them.

(4) Approval of the annual budget.

(5) Consideration of the audit report of the Bank's Auditors or any communication received from the Registrar of Co-operative Societies.

(6) Distribution of annual net profits in accordance with the Act, the Rules and the bye-laws.

(7) Amendment or repeal of the existing bye-laws or the enactment of new bye-laws.

(8) The appointment of one or more auditors for the ensuing year and fixation of their remuneration.

(9) Transaction of any other business duly brought forward with the permission of the President provided it does not relate to the amendment of a bye-law or expulsion of a member.

18. **Special General Meeting.** A special general meeting may be called at any time on a requisition signed by one-fourth of the number of members or 50, whichever is less, or on a requisition by the Registrar of Co-operative Societies. In the latter

case, the meeting shall be convened by the Manager or the Secretary within a month of such requisition.

19. **Notice**. Fourteen days' notice of a general meeting shall be given to all shareholders and one-fifth of members or 50, whichever is less, shall be sufficient for a quorum.

20. The President, or in his absence the Vice-President, shall preside at all general meetings. In the absence of the President and the Vice-President, the shareholders themselves shall elect one to preside at the meeting. The President shall have a casting vote.

21. **Management**. The management of the bank shall vest in a Board consisting of——representatives of societies, representatives of individual members and three representatives of the State Government or the State Co-operative Bank. The Directors representing societies shall be elected at the general meeting from amongst the delegates of societies. The Directors representing individual shareholders shall be elected from among them at a general meeting of all the shareholders. The Directors representing the State Government or the State Co-operative Bank shall be nominated by the State Government or the State Co-operative Bank.

Note: Usually there are 15 members on the Board of a central bank. It is now an accepted principle that every central bank should constitute its Board of Directors with not less than 2/3rds of the members as representatives of agricultural societies. The constitution of the Board is devised in a manner which gives a predominant voice to the representatives of agricultural societies and provides for a reasonable representation for individual members and affords scope for nomination of three representatives either on behalf of the State Government or the State Co-operative Bank. The idea underlying this constitution is that interests of co-operatives will be safeguarded by their representatives; the representatives of individuals will lend their knowledge of local conditions and the nominees of the State Government or the State Co-operative Bank will hold the balance between the interests of borrowers and depositors. The qualifica-

tions of Directors are also laid down and it is common to find that no defaulter in a co-operative society or no person having an interest in any contract made with the bank shall be eligible for serving as a Director of the bank. Similarly, if a member of the Board appears as a legal practitioner against the central bank or against any other society which is a member of the bank he ceases to be a Director. In order to provide for ensuring continuity of administrative policy, retirement of one-third of the Board of Directors every year is provided.

22. **Powers and Functions of the Board.** Among other things the powers and functions of the Board shall be—

(1) To raise funds for the purposes of the bank in the form of deposits and loans and determine the terms on which they should be raised.

(2) To grant loans and advances to members.

(3) To sanction or approve investment of the funds of the bank.

(4) To prepare and put up the annual budget to the general body.

(5) To regulate from time to time the strength of office and field staff and fix their remuneration.

(6) To submit to the general body the annual report and the statement of accounts.

(7) To make arrangements for efficient supervision of affiliated societies.

(8) To appoint, suspend, remove or dismiss or otherwise deal with the employees of the bank in accordance with the subsidiary rules framed in that behalf.

(9) To grant extension of time for loans that become due for repayment.

(10) To convene meetings of the general body.

(11) To transact all other business incidental to the administration of the bank.

Note.—As regards powers and composition of the Board of Management of a central bank, the Rural Credit Survey Committee made two important recommendations. In some of the banks officers are appointed as Chairmen and this practice the

Committee strongly deprecates in the following words: "We think that every effort should be made for enlisting the association of suitable non-official co-operators as Chairmen of State Co-operative Banks or Central Co-operative Banks." It further recommended that "Government should have special powers to reverse particular decisions on items falling within the categories of policies and the local Agent of the State Bank of India should invariably be nominated as one of the members of the Board of the particular central bank."

23. **Meetings of the Board.** The Board meets as often as may be necessary for the transaction of the business of the bank, but at least once a quarter. Questions arising at every meeting of the Board are decided by a majority of votes and in case of equality of votes, the President shall have a casting vote. The quorum for a meeting is fixed at eight, if the total strength of the Board is fifteen. It is open to the Board of Directors, subject to the approval of the Registrar of Co-operative Societies, to frame subsidiary rules for the conduct of the business of the bank, including the laying down of the regulations pertaining to qualifications or disqualifications for the members of the staff, their recruitment, promotion, discipline etc., consistent with the provisions of the Act, the Rules and the Bye-laws. The services of the members of the Board and the Executive Committee are gratuitous but they will be entitled to travelling allowance and sitting fees, as may be fixed from time to time.

Note.—There has been during recent years an expansion in the number of members on the Board of Management and the practice of forming an Executive Committee for looking after the day-to-day work of the bank has grown and it is competent for the Board to delegate to the Executive Committee—which is a small body—all or any of its powers and duties from time to time and withdraw all or any of the powers and duties so delegated.

24. **The Executive Committee.** An Executive Committee will consist of five members including the President and the Vice-President and three other Directors elected by the Board, of

whom one must at least be a Director nominated by the State Government or the State Co-operative Bank. Members of the Executive Committee hold office for the full term for which they are members of the Board or till their successors are appointed and assume charge of office. A casual vacancy in the Executive Committee is filled by election by the Board. An elected member of the Executive Committee ceases to hold office, if he absents himself for four consecutive meetings without permission, but he may be reinstated for sufficient reasons shown and recorded in writing. The President, or in his absence the Vice-President, presides over the meetings of the Executive Committee. Three members form a quorum.

25. **Powers of the Executive Committee.** Subject to the general directions of the Board, the Executive Committee may exercise the following powers:—

(1) Admission of members.

(2) Allotment of shares to members and sanction for their transfer.

(3) Preparation of annual report of the bank and budget.

(4) Convening the meetings of the Board.

(5) Examination of all cases of arrears and taking of proper action for their recovery.

(6) Fixation of the amount and nature of security to be given by the several grades of employees of the Bank.

(7) Generally to carry out the instructions of the Board and to do all other acts which are necessary for the management of the bank.

26. **Delegation of Powers by the Executive Committee.—** The Executive Committee may delegate any of its powers to the President and the Vice-President, in the absence of the President, for a specified period subject to the condition that the President or the Vice-President shall exercise such powers jointly with the Manager, and the Executive at any time may withdraw such powers.

27. **Offcers of the Bank.** (a) **President :** Subject to the resolutions of the Board and of Executive Committee, the President

shall exercise general control and supervision over the affairs of the Bank. He will preside over the meetings of the General Body, the Board and the Executive Committee.

(b) **Vice-President** :— Whenever the President is absent from his office due to any reason, the Vice-President shall exercise the powers and perform the duties of the President.

(c) **Manager.**—The Manager shall be appointed by the Board and he will be responsible for the general administration of the Bank subject to the control of the President and the Board of Management.

28. **The Powers and Duties of the Manager.** The powers and duties of the Manager will be :—

(1) To have custody of all the properties of the bank.

(2) To sue and be sued on behalf of the bank.

(3) To have power to operate the bank's account and subject to such directions and limits as may be laid down by the Board or the Executive Committee, to buy, sell, pledge, endorse, transfer promissory notes, Government and other Trustee Securities standing in the name of the bank, to sign, negotiate or endorse cheques and other negotiable instruments and to sign all receipts of all accounts and documents concerned with the business of the bank.

(4) To accept deposits of all kinds and to carry on general banking transactions subject to the directions of the Board and the Executive Committee.

(5) To examine loan applications and place them before the Board or the Executive Committee as the case may be.

(6) To review and take steps for the collection of instalments of overdue loans.

(7) To arrange for the holding of the meetings of the Executive Committee, the Board, the General Body in such manner as may be prescribed.

(8) To attend every meeting of the Board and the Executive Committee.

(9) To maintain such accounts and registers as are prescribed under the Rules under the Co-operative Societies Act and under the bye-laws and by the Registrar of Co-operative Socities.

(10) Generally to carry on the day-to-day administration of the bank.

29. **Loans.** The funds of the bank shall be utilised for the purpose of granting loans to societies registered under the Co-operative Societies Act. The central bank shall not lend to any society any sum which, with that society's other indebtedness will exceed the society's maximum borrowing power as fixed in its bye-laws.

30. **The Period.** The period of the loan given by the bank shall ordinarily be one year and shall not in any case exceed five years. The rate of interest charged on all loans shall not exceed 6% as may be decided upon from time to time by the Board. The Board may grant extension of time to instalments of loans that are in default owing to genuine cause for a period not exceeding one year.

31. **Loans to Individuals.** Loans may be granted to the individual members against the security of gold, silver, or agricultural or industrial produce or fixed deposits on such conditions as may be imposed by the Registrar of Co-operative Societies from time to time, provided that the total sum so invested shall not in the aggregate exceed Rs.———and provided further that such loans shall be given only when there are surplus funds after meeting the reasonable requirements of primary societies. The business of finance to individual members shall be governed by subsidiary regulations framed or modified, wherever necessary, by the bank with the approval of the Registrar.

Note.—Originally central banks were started in this country to make finance to co-operative societies and to act as balancing centres for their surpluses. With the setback to the movement on account of the economic depression of the 1930's and accumulation of surplus funds in central banks, the practice of employing part of their funds in outlets other than finance to societies grew up leading to competition between urban banks and central

banks in a State like Bombay. During the period of controls, central banks undertookt rading activities, though on a commission basis and co-operative opinion is now definitely opposed to a combination of trading and banking. Similarly, co-operators are also now reconciled to the view that the central financing agencies ought to lend more and more to co-operative societies only.

The Rural Credit Survey Report has in this context, recommended that "The central banks should give first priority to the requirements of agricultural credit societies only. Loans to individuals should be rigidly restricted. They might, e. g., be confined to advances against fixed deposits. Loans to merchants and traders, wherever now given, should be eliminated within the shortest period possible. Subject to the fulfilment of certain pre-requisites, such as existence of arrangements for safe custody and for proper valuation, central financing agencies may issue loans on the pledge of gold and jewellery or against approved securities. An individual agriculturist may be admitted as a member of a central bank as purely a transitional arrangement pending establishment of co-operative societies in the area concerned." The lending policy of cental financing agencies relating to agricultural credit societies is confined to advances for raising crops. A uniform system has been now recommended for adoption by all the states.

32. Commercial Activities of Co-operative Banks. What types of business come actually under this category of commercial activities has nowhere been clearly defined. But the ex-Chief Officer of the A. C. D. of the Reserve Bank of India—Shri Subba Rao—attempted to clarify when he said: "If a co-operative bank devotes considerable attention to its individual members by giving them a predominant place in its management and business dealings, it may be said to have some leanings towards commercialistion of its business, the extent of such lendings being indicated by the extent of influence and share in the business which individuals are able to command." It may be noted in this context that in the majority of provinces the representatives of societies on the Board of Central Banks exceed in number of those of individual members. It is also a fact that individuals impart financial stabi-

lity and strength to central banks by depositing their monies and using their talents for their proper management. That is why until such time as the central banks can safely rely on the representatives of agriculturists for the efficient conduct of business and management of these banks, individuals will have to be tolerated. The chief complaint is, however, that which centres round the advances made to individuals. These of course can be for all sorts of purposes and the securities taken may also vary. But if the individuals are as a class eliminated from the central banks, in their present stage of development, they would naturally withdraw their deposits and invest them in the institutions which give them the necessary facilities. The late Prof. Kaji, Vice-President of the Bombay Provincial Co-operative Institute, was opposed to the grant of produce-pledge loans by central banks as it was a legitimate business of marketing co-operatives. But it may be noted that wherever marketing co-operatives are not at all developed, surplus funds of central financing agencies cannot remuneratively be employed until a sufficient number of well-managed marketing co-operatives come into existence to absorb their surplus funds. The same logic holds good also in case of trading activities of central banks in so far as agricultural requisites are concerned. There are of course certain lines of business such as discounting of a hundi, which is often times very complicated and risky too, which a central financing agency may be well advised to avoid. Bu ttransfer of funds subject to certain safeguards may be undertaken.

33. **Branches of Central Banks.** If the Central Banks are to be brought into closest touch with their affiliated societies, it can be done through a branch situated at the taluka headquarters or at an important commercial centre in the area of which there is a nucleus of societies borrowing from the central bank. This type of branch banking has well developed in the Bombay State. Every branch is normally assisted by an elected branch Committee, treating the Branch as an independent unit. In areas which are not co-operatively well-developed, the nomination of the Branch Committee is made by the Head Office. The Branch Committee elects its own Chairman and the Agent of the Branch acts as Secretary in an honorary capacity. The members of the Branch Committee generally look to the expansion of the movement in the area of

the Branch and help the staff also in stimulating recoveries and generally developing the business of the Branch in such a way as to promote the welfare of affiliated societies. Sometimes certain powers of the Board are delegated to the Branch Committee. For example, loans upto a specified amount can be granted to 'A' or 'B' or 'C' class societies for agricultural operations in accordance with the rules framed by the bank. An annual general meeting of all the affiliated societies is convened and thus an opportunity is given to the constituent societies for reviewing the work of the Branch.

34. **Annual or other Periodical Statements.** The Bank should prepare annually in such forms as may be prescribed by the Registrar-

(1) Statement showing the receipts and disbursements for the year.

(2) A Profit and Loss Account as on 30th June of each year.

(3) A balance-sheet at the same date, and

(4) such other statements as may be prescribed by the Registrar.

Note—The Thirteenth Conference of Registrars recommended that all co-operative banks should send a monthly statement of their financial position to the Provincial Co-operative Bank or in the case of Bombay, to the Co-operative Banks' Association.

35. **Distribution of Net Profits.** The annual net profits of the bank shall be disposed of in the following manner:

(1) Not less than 25 per cent shall be carried to the Statutory Reserve Fund.

(2) Out of the remainder, a dividend may be declared not exceeding 5 per cent. per annum on the amount of shares held by members proportionately to the period during which the share capital was so held during the year. The Registrar may fix from time to time the level of dividend actually payable on the shares held by

the State Government or the State Co-operative Bank and allow the Bank to retain a part of the dividend in excess of this level to be credited to an Agricultural Credit Stabilization Fund, which should be constituted by the Bank. The balance out of the excess may be paid into the State Agricultural Credit Relief and Guarantee Fund. There may also be a compulsory deduction from the dividends payble to other shareholders equivalent to the excess above the maximum level of dividend which the Registrar may separately fix from time to time for the shares held by shareholders other than the State Government or the State Co-operative Bank. Amounts so deducted shall be credited to the Agricultural Credit Stabilization Fund.

(3) Out of the remainder, such sums as may be decided upon by the General Body may be credited to a Reserve for Bad and Doubtful Debts, Investment Depreciation Fund, Building Fund, Dividend Equalization Fund and a Common Good Fund.

(4) A bonus may be given to the staff not exceeding one month's salary.

(5) Undisbursed or unappropriated balance shall be disposed of in accordance with the decision of the General Body next year. If any shareholder does not claim dividend within three years fom the date of its declaration, such unclaimed dividend shall be carried to the Reserve Fund. No unpaid dividend shall bear interest against the bank.

36. The Reserve Fund belongs absolutely to the bank. It shall be invested outside the business of the bank in any of the securities under Section 20 of the Trusts Act, 1882, except immoveable property.

37. **Amendment of Bye-laws.** No amendment to, alteration in or cancellation of a bye-law or the enactment of a new bye-law shall be made except at a General Meeting of the members or shall be deemed to have been passed unless at least two-thirds of the members present at the General Meeting vote for it or shall take effect until it shall have been duly approved by the Registrar.

38. Should there be a conflict between the bye-laws of the bank and those of the affiliated societies, the bye-laws of the bank shall prevail.

Note: A few of the bye-laws are taken or based on the model prepared by the Reserve Bank of India in the Agricultural Credit Department.

Appendix (A)

OPERATIONS OF CENTRAL

(Amounts in

State	No. of Banks		Membership Individuals	
	1952-53	1953-54	1952-53	1953-54
Andhra	—	15	—	1,720
Assam	13	14	362	337
Bihar	52	52	3,181	3,393
Bombay	33@	31@	40,164	40,694
Madhya Pradesh	41	41	37,920	42,949
Madras*	31	16	4,066	2,212
Orissa	23	23	1,235	1,255
Punjab	63	60	2,253	2,309
Uttar Pradesh	62	61	6.717	6,598
West Bengal	41	42	1,848	1,852
Hyderabad	45	41	5,306	1,902
Jammu & Kashmir	9	9	383	386
Madhya Bharat	25	25	6,303	6,429
Mysore	3‡	8	27	334
PEPSU	16	16	904	937
Rajasthan	15	14	2,821	3,422
Saurashtra	5	5	14,160	4,446
Travancore-Cochin	2	1	1,789	—
Ajmer	6	6	222	222
Bhopal	13	13	775	307
Himachal Pradesh	7	6	235	207
Total ...	505	499	1,30,671	1,21,911

*Figures for 1953-54 relate to the residuary State.

‡Includes 4 industrial Co-operative Banks.

@These are defunet.

N.B.—Figures taken from the Review of the Co-operative Move-

Appendix (A)

CO-OPERATIVE BANKS

Lakhs of Rupees)

Banks & Societies 1952-53	1953-54	Owned Funds 1952—53	1953-54	Total 1952—53	Deposits 1953—54
—	8,505	—	128.86	—	407.408
512	517	2.84	2.44	3.84	2.62
9.167	10,551	13.22	14.86	28.19	29.58
9,676	10,120	213.15	231.96	1,226.96	1,397.11
8,873	9,696	76.42	104.35	178.56	184.94
20,405	11,873	297.17	183.84	1,166.09	731.74
5,618	6,067	37.23	40.15	74.13	86.35
12,969	14,194	118.44	132.79	481.03	481.84
20,052	22,599	99.80	110.19	252.99	289.08
10,023	10,899	55.67	59.78	116.56	116.31
4,477	4,645	45.70	43.94	89.11	54.45
2,744	2750	12.36	12.15	12.15	19.34
6,854	6,870	39.01	41.38	130.55	157.49
135	769	0.40	15.29	0.01	26.18
1,500	1,936	10.82	11.66	19.39	28.19
2,128	2,314	12.99	16.66	50.26	52.86
180	242	15.25	16.38	10.97	12.63
1,443	289	4.72	2.72	55.56	33.47
723	721	5.17	5.31	3.69	3.84
227	210	4.94	4.94	0.41	0.42
253	227	1.07	1.13	5.34	3.30
1,17,979	1,25,994	1,066.37	1,180.78	3,910.28	4,119.22

ment in India for 1952-54, published by the Reserve Bank of India.

Appendix (B)

OPERATIONS OF CENTRAL

(Amounts in

State	Other Borrowings 1952—53	Other Borrowings 1953—4	Working Capital 1952-3	Working Capital 1953-4
	Rs.	Rs.	Rs.	Rs.
Andhra	—	297.26	—	833.59
Assam	0.64	2.39	7.32	7.46
Bihar	25.64	45,17	67.05	89.61
Bombay	83.47	118.30	1,523.37	1,747.36
Madhya Pradesh	100.94	152.20	355.93	441.49
Madras	661.76	294.99	2,125.02	1,210.57
Orissa	41.58	51.44	152.94	177.95
Punjab	65.72	138.07	665.20	752.69
Uttar Pradesh	10.48	28.43	363.27	427.70
West Bengal	54.34	60.62	226.56	236.71
Hyderabad	18.95	30.24	153.75	128.63
Jammu & Kashmir	19.14	10.52	48.35	42.02
Madhya Bharat	34.78	38.70	204.33	237.57
Mysore	—	10.91	0.41	52.38
PEPSU	6.82	8.61	37.04	48.46
Rajasthan	6.94	7.09	70.19	76.62
Saurashtra	9.27	12.65	35.49	41.65
Travancore-Cochin	1.00	—	61.28	36.20
Ajmer	1.54	1.27	10.39	10.42
Bhopal	1.70	1.70	7.05	7.06
Himachal Pradesh	1.29	0.53	7.71	4.95
Total	1,146.00	1,311.09	6,122.65	6.611.09

N.B. Figures taken from the Review of the Co-operative Movement

Appendix (B)

CO-OPERATIVE BANKS

lakhs of rupees)

Total Investment		Fresh Advances made during the year			
		Individuals		Banks & Societies	
1952-3	1953-4	1952-3	1953-4	1952-3	1953-4
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
—	132.91	—	20.76	—	767.54
0.81	0.90	—	—	0.29	1.88
15.70	16.25	0.62	0.91	33.05	61.98
471.83	547.13	248.25	824.35	1,199.62	1,274.67
84.71	93.93	176.52	214.86	251.14	300.97
498.97	361.71	40.10	15.00	3,236.89	1,657.95
29.24	30.38	1.84	2.87	79.64	110.62
433.34	449.68	3.39	9.07	132.36	223.63
45.83	55.19	2.63	49.54	319.47	319.46
34.65	53.28	3.32	1,50	111.12	118.44
49.52	32.59	2.10	0.31	24.80	36.95
3.63	3.96	0.24	0.06	380.46	161.47
22.01	37.34	89.66	57.80	83.88	82ɛ.6
0.01	12.06	—	1.07	—	21.88
1.64	1.80	0.26	0.38	14.91	25.70
18.77	20.89	35.18	45.97	27.91	24.69
12.65	13.33	1.37	0.55	2.50	5.15
33.01	17.12	3.58	1.83	28.92	20.53
2.91	2.71	0.09	0.11	3.78	3.83
0.21	0.21	0.01	0.01	0.14	—
1.25	0.40	—	2.42	17.82	0.09
1,760.69	1,883.77	609.16	1,249.37	5,948.70	5,221.04

in India for 1952-54 and published by the Reserve Bank of India.

Appendix (C)

OPERATIONS OF CENTRAL

(Amounts in

State	Recoveries during the year Individuals 1952–53	Individuals 1953–4	Banks & Societies 1952–3	Banks & Societies 1953–4
	Rs.	Rs.	Rs.	Rs.
Andhra	—	21.90	—	733.30
Assam	—	—	0.28	0.37
Bihar	0.67	0.11	18.43	39.22
Bombay	241.60	791.53	1,217.90	1,214.83
Madhya Pradesh	170.38	208.57	198.03	221.52
Madras	48.39	15.95	3,292.92	1,741.68
Orissa	1.31	1.80	77.65	87.25
Punjab	3.33	8.04	99.43	147.55
Uttar Pradesh	2.64	43.15	311.26	270.19
West Bengal	3.56	1.99	87.80	107.75
Hyderabad	6.49	19.77	26.83	24.66
Jammu & Kashmir	0.22	0.15	386.56	166.13
Madhya Bharat	91.31	61.98	73.02	78.54
Mysore	—	0.95	—	30.68
PEPSU	0.27	0.49	8.54	17.66
Rajasthan	34.52	48.10	22.57	21.53
Saurashtra	1.37*	2.44	0.64	3.05
Travancore-Cochin	3.70	2.20	36.20	21.36
Ajmer	0.05	0.12	4.06	3.59
Bhopal	0.01	0.01	0.15	0.07
Himachal Pradesh	0.52	2.18	17.56	0.11
Total	610.32	1,231.43	5,879.93	4,931.04

* These are revised figures and hence differ from those shown

N.B.—Figures taken from the Review of the Co-operative

Appendix (C)

CO-OPERATIVE BANKS

lakhs of rupees)

Outstandings at the end of the year						Total Bad & Doubtful Debts	
Individuals		Banks & Societies		Overdues			
1952-3	1953-4	1952-3	1953-4	1952-3	1953-4	1952-3	1954
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
—	9.21	—	648.48	—	110.61	—	16.21
—	—	3.78	4.76	3.44	2.52	0.28	0.24
0.43	1.36	36.07	59.62	9.56	18.08	21.48	21.01
149.53	186.99	619.04	676.32	115.36	154.39	6.99	7.89
42.10	48.39	197.61	277.06	47.59	55.37	4.28	4.21
16.57	5.90	1,526.72	740.61	189.30	70.41	12.84	8.48
2.62	3.69	1.0134	124.72	20.47	21.48	2.83	3.79
2.12	3.18	155.35	230.77	21.68	26.66	13.87	12.61
1.43	8.08	241.53	290.44	46.43	46.02	4.51	3.53
2.82	2.34	104.41	115.10	34.04	33.20	13.00	14.66
19.66	0.20	65.53	77.82	42.66	39.19	0.02	4.21
0.25	0.15	27.21	22.56	12.74	8.10	—	—
24.88	20.70	123.26	128.33	40.18	45.25	5.63	5.50
—	0.79	0.32	24.25	0.32	7.97	—	0.51
5.69	5.58	26.93	34.96	10.58	9.24	0.36	0.03
13.40	14.07	27.20	30.36	7.17	9.25	3.35	3.65
2.35*	0.47	2.21	4.31	5.34	2.59	—	—
7.36	5.95	12.86	7.55	3.88	2.31	—	—
0.04	0.03	4.54	4.79	0.12	0.16	0.79	0.74
0.08	0.08	4.30	4.23	4.20	4.16	—	—
1.58	1.82	3.68	0.90	0.20	0.80	—	—
292.91	312.98	3,283.89	3,507.94	615.26	667.76	90.23	107.27

in the Statistical Statements for the respective years.
Movement for 1952-54 aud published by the Reserve Bk. of India.

Appendix (D)

OPERATIONS OF CENTRAL

State	Profit (+) or Loss (–) (Amounts in lakhs)		
	1952–3	1953--4	
	Rs.	Rs.	
Andhra	=	+ 7.98 — 0.29	
Assam	+ 0.05 — 0.06	+ 0.20 — 1.29	
Bihar	+ 0.82 — 7.08	+ 0.46 — 3.29	1-4½
Bombay	+ 12.85 — 0.09	+ 14.27 — 0.11	¼-5½
Madhya Pradesh	+ 4.91 — 0.33	+ 7.04 — 0.01	½5
Madras	+ 19.89 — 0.62	+ — 10·18	3½
Orissa	+ 2.20	+ 1.90	½-8
Punjab	+ 2.10 — 2.10	+ 4.04 — 1.05	1½-4¾
Uttar Pradesh	+ 6.38 — 0.05	+ 6.80 — 0.54	3 ½
West Bengal	+ 1.37 — 0.31	+ 1.91 — 0.34	2-5

CO-OPERAIVE BANKS

Appendix (D) (Amounts in lakhs of rupees)

State	Profit (+) or Loss (—) 1952—53	1953—54
	Rs.	Rs.
Hyderabad	+ 1.75 — 0.05	+ 1.54 — 0.04
Jammu & Kashmir	+ 0.13	+ 0.10 — 0.26
Madhya Bharat	+ 2.69 — 0.08	+ 2.89 — 0.01
Mysore	+ 0.00	+ 0.37
PEPSU	+ 0.47 — 0.24	+ 0.49 — 0.02
Rajasthan	+ 0.37 — 0.05	+ 0.42 — 0.03
Saurashtra	+ 1.08 — 032	+ 0.34 — 0.28
Travancore-Cochin	+ 0.28	+ 0.08
Ajmer	+ 0.10 — 0.01	+ 0.08 — 0.02
Bhopal	+ 0.04 — 0.43	+ 0.05 + 0.57
Himachal Pradesh	+ 0.08 + 0,01	+ 0.07
Total	+ 57.55 — 11.82	+ 61.21 — 8-15

CHAPTER IX

PROVINCIAL OR STATE-CO-OPERATIVE BANKS

1. The need for an Apex Bank in each Major State. The Maclagan Committee was of the opinion that the co-operative edifice should be pyramidal in its structure. That is to say, it should consist of primary societies at the base and the unions of such primaries called the central banks for the purpose of finance and supervision at the intermediate stage, covering an area and serving a number of societies which are not too large to prevent efficient supervision and are yet sufficiently large to enable the banks to employ a reasonable amount of working capital, and a provincial institution at the top. The Committee emphasised the need for establishing an apex bank in each major province in the following words:—

"In the absence of an apex controlling institution Central Banks have to make such arrangements as they can, either by circularising each other or through the Registrar, to lend out their surplus funds or to borrow to meet their needs. This system is inefficient and uneconomical when the work is done by the Central Banks themselves and if it is carried out by the Registrar, entails a substantial addition to his already onerous duties. Moreover, uncontrolled interlending among Central Banks involves an interlocking of liabilities which may well lead to trouble. In some provinces too the Central Banks are unable unaided to secure locally sufficient funds to meet their needs, and these can best be provided by a bank capable of attracting deposits from the richer urban classes and more suitably equipped to serve as a channel between the co-operative movement and Presidency or Joint Stock Banks. It is, therefore, in our opinion necessary to provide in each of the major provinces an apex bank which will co-ordinate and control the working of Central Banks, forecast and arrange for the provincial requirements as a whole, and be the financial co-operative centre of the province."

2. Other Recommendations of the Committee in regard to apex banks are as under:—

(1) Provincial Banks should not be started on an extravagant or unnecessarily large scale.

(2) Share capital plus surplus assets should not be less than one-tenth of the total funds, borrowed from outside.

(3) Societies and central banks should be represented on the management of a Provincial Bank and should be placed in such a position that they are able within a resonable time to secure a majority of votes in the General Meeting. At commencement individual shareholders may have a preponderent influence.

(4) It is not, however, necessary that societies and Central Banks should have a dominating voice on the Directorate of the Provincial Bank.

(5) Shares should ordinarily be of one class, reserve liability being not advisable on individual shares but unobjectionable on societies' shares.

(6) All Central Banks should be affiliated to Provincial Banks but where there is no Provincial Bank they may lend direct to primaries.

(7) Deposits fixed for longest possible terms should be secured.

(8) Deposits at call should be covered up to 75 per cent. of their amount by fluid resources.

(9) No prohibition should be placed on savings deposit accounts.

(10) Provincial Banks should not place too much reliance on cash credits, and should strive to accumulate good reserves and strong holdings of liquid securities in order to be more independent.

(11) The Provincial Bank should maintain fluid resources sufficient to cover all possible demands against itself for a period of one-third of the ensuing year together with all the possible liabilities to be met by any affiliated Central Banks for which it has undertaken to provide cover within the same period. For this

service to Central Banks it should charge a commission or higher rate of interest. It will be found convenient to concentrate the whole of the fluid resources at the apex of the system.

(12) Provincial Banks should be prohibited from undertaking outside banking business, except in so far as it is necessary to deposit spare funds for short periods in outside institutions.

(13) A Provincial Bank may legitimately be reluctant to lend its superfluous funds to another Provincial Bank unless the borrowing bank has sufficiently proved its creditworthiness and the lending bank is able itself to examine and verify the financial position of the borrower.

(14) A separate audit of the accounts by a Chartered or Incorporated Accountant authorised by the Registrar is desirable. The whole expense of it should be borne by the bank. Further duties of supervision and enquiry appertain to the Registrar and cost is debitable to Government.

(15) Provincial Banks should submit the same returns as Central Banks; and should be supplied by the Registrar with copies of all returns received from affiliated Central Banks. They should publish and distribute to shareholders and depositors annual balance sheets and reports.

3. Origin, Growth and Development of Provincial Banks In India.

(1) In Bombay, the Registrar of Co-operative Societies persuaded a few friends of his in Bombay City as early as 1906 to start an urban credit society for the purpose of providing capital for rural credit societies. Sir Vithaldas D. Thackersey and Sir Lallubhai Samaldas then conceived the idea of starting a central bank with the object mainly of providing finance to co-operative societies. They were at the time much impressed with the way in which takavi loans were granted by the Government of Bombay to canegrowers in 29 villages in Baramati area of the Poona District and took the hint that the business could be organized through rural credit societies which could also be financed by the central bank. They accordingly prepared a scheme of debentures, interest on which was to be guaranteed by the Government of Bombay.

After considerable discussion between the Government of Bombay the Government of India and the Secretary of State for India, a formal agreement was arrived at between the promoters and the Government and thus the Bombay Co-operative Bank was registered on 11th October 1911 under the Co-operative Societies Act, 1904. The area of operation of the Bank extended all over the Presidency. It was laid down that no loan should be advanced by the Bank except on the recommendation of the Registrar of Co-operative Societies subject to certain specified exceptions. The Bank also agreed to provide fluid resources to meet demand liabilities and to invest the surplus funds in government securities or with banks approved by Government. Government on their part agreed to grant permission to the Bank to raise debentures to the extent of three times its paid -up share capital with a maximum of Rs. 20 lakhs, to be secured by a floating charge on the several assets of the Bank, and to guarantee interest on debtntures till the date of their redemption. The Bank commenced operations by taking over the loans allowed to societies in various districts by the Bombay Urban Credit Society and also the tagavi loans of Government in the Nira Canal tract. The desire of several districts to have a local district central bank of their own received a stimulus after 1916 as the result of the recommendations of the Maclagan Committee and thus more local district central banks came to be started. Some of the urban societies such as Surat, Broach and Ahmednagar were converted into district central co-operative banks for their districts. The local banks were in this way operating side by side with the Bombay Central Co-operative Bank until 1920. The policy of having one district central bank for a district was accepted at about the same time in order to prevent overlapping of finance. In pursuance of this policy, the Bombay Central Co-operative Bank began to function as a district central bank in areas not served by district central banks. When independent district central banks came to be started, the Bank's business was transferred to those banks whenever the latter agreed to take over.

(2) **Madras.** The Madras Central Urban Bank was registered on 23rd November 1905. Sir V. C. Desikachari took the initiative in starting the Bank. On March 31, 1906, it had a paid-up share capital of Rs. 4,200/- only, and according

to bye-laws, no member was entitled to hold more than two shares of Rs. 500/- each. This restriction was also in the Act. The Bank was started on limited liability basis and its operations covered the whole of the Presidency. Its object was to lend to registered societies and it did not make any finance to individuals. Its bye-laws were amended in 1908 when power was taken to lend to individuals against deposits and Government securities. In 1917, the constitution of the Bank was changed so as to admit societies as shareholders, but the individual shareholders were guaranteed a preferential dividend of 9 per cent. and were given a preferential right in the event of liquidation. Steps were also taken for eliminating individual shareholders by buying back their rights by payment of a premium of Rs. 60 per each share of the nominal value of Rs. 100/-. 33 per cent. of the seats on the Board were given to societies. Three years later it was decided to admit only central banks as members and thus the Bank became practically a Federation of Central Banks. Each central bank had a representative on the Board of Management and the strength of the representatives of individual shareholders was fixed at 50 cent. of that of the central banks. As the size of the bank grew unwieldy, an Executive Committee of the Board was constituted consisting of nine persons. The bulk of the loans given by the Bank to societies during this period was practically long-term until 1920.

(3) **C. P. and Berar.** The Provincial Bank was registered with its headquarters at Jabalpur on 2nd April 1912. Its main object was to finance the various central banks and other co-operative societies and also to serve as a balancing centre for the funds of the movement. The Bank was rather fortunate in having on its Board of Management distinguished persons like Sir Gangadhar Chitnavis, andSir Kasturchand Daga. It had also the support of the Allahabad Bank whose Agent at Jabalpur was an ex-officio Director of the Bank. Under the able guidance of this distinguished team, the Bank was able to do deposit-banking even during the second year of its inception. It was also granted a cash credit of Rs. 10 lakhs on the basis of its paid-up share capital and the reserve liability, attached to the preference shares of the Bank. The management of the Bank

was in the hands of Directors elected by the individual shareholders in the beginning and it was later decided to redeem the preference shares in favour of societies and the office of the Bank was also shifted to Nagpur.

(4) **Bengal.** In Bengal, the Central Financing Agencies were financed by the Darjeeling Branch of the Alliance Bank of Simla under the cash credit system. After the Bank went into liquidation, the need was felt for fiilling up the void and the Bengal Provincial Co-operative Federation took over all the cash credits granted by the Alliance Bank to the Central Banks in the Province on 1st July 1918 and the total amount of cash credits thus taken over was about Rs. 3 lakhs. The Bengal Provincial Federation was converted in 1920 into the Bengal Provincial Co-operative Bank.

(5) **Bihar and Orissa.** Bihar formed a part of Bengal till 1912, and soon after it became a separate province, the idea of starting a Provincial Co-operative Bank was seriously mooted. Bihar started its Provincial Bank under the name of Bihar and Orissa Provincial Bank in 1914. The authorised capital of the Bank was to be Rs. 20 lakhs, out of which Rs. 4 lakhs were to come from guarantee-shareholders. The Registrar was an ex-Officio Director and loans were granted on the recommendation of the Co-operative Department. As a result of the World War I, there was a spurt in the prices of agricultural commodities and the number of societies went up from 1400 to 8300. For the Provincial Bank the increase in the number of societies meant also increase in its business and higher dividend to its shareholders. The management of the Provincial Co-operative Bank was vested in the beginning in a Board of 18 persons of whom two represented guarantee-shareholders, five individual shareholders, nine central banks and one urban bank, while the eighteenth member was the Registrar. All went on well till the great slump set in.

(6) **Mysore.** Among the Indian States, Mysore and Hyderabad had stolen a march over other States. With a great expansion of the co-operative movement after 1910-11, the need was felt for special agency to finance the increased demand of societies. The

Bangalore Central Co-operative Bank, with the whole of the State as its area of operation, was already in the field since the year 1908. The Mysore District Central Co-operative Bank followed with Mysore District only within its jurisdiction. These two Banks were lacking in funds for financing the movement and the Mysore Provincial Co-operative Bank was, therefore, started in 1915 with the object of financing, inspecting and supervising co-operative societies in the State. The Bangalore Central Co-operative Bank and the Mysore Provincial Co-operative Bank were working on similar lines and for similar ends. This was an anomalous position leading to competition between the two financing agencies. In order to remove this anomaly, Government ordered in the first instance that the business of finance should be fairly and impartially divided in proportion to their resources. This, however, did not work smoothly and the Mysore Government appointed a Committee of Enquiry under the presidentship of Sir Lallubhai Samaldas. This Committee made the following alternative recommendations to Government :—

(1) To amalgamate the Mysore Provincial Co-operative Bank and the Bangalore Central Co-operative Bank, or

(2) to create a new Apex Bank, or

(3) to convert the Central Bank into an Urban Bank dealing only with individuals and the reconstitution of the Provincial Bank as a new Apex Bank.

Owing to the opposition of the Bangalore Central Bank to amalgamate with the Provincial Bank, the Provincial Bank was reconstituted as a new Apex Bank.

(7) **Hyderabad.** The Provincial Bank was registered on 6th March 1915 under H. E. H. the Nizam's Government Act II of 1323 F under the title of " The Hyderabad Co-operative Central Bank ". The object was primarily to finance co-operative banks and societies established under the Act in the Nizam's Dominions. Prior to the year 1923, the Bank was exclusively financing primary societies only, but owing to the pursuit of the policy of starting district central co-operative banks for the various districts, the need was felt for financing these banks and it was decided in 1925

to convert the Hyderabad Central Co-operative Bank into an Apex Bank under the title of the "Hyderabad Co-operative Dominion Bank, Limited". The then existing liabilities against the primary societies were transferred to the district central banks.

The subjoined table gives statistics relating to Provincial Banks, in 1919-20 :—

(1) No. of Banks.		7
(2) No. of Members :		
(a) Individuals (in thousands) ...		2
(b) Societies.		1830
	(Amounts in lakhs.)	
(3) Paid-up share capital.	Rs.	22
(4) Statutory and other funds.	,,	8
(5) Loans and Deposits:	,,	212
(a) Individuals.	,,	156
(b) Societies.	,,	19
(c) Central and State Banks		37
(6) Working Capital.	,,	242
(7) Loans made : ...	,,	155
(a) Individuals. ...	,,	15
(b) Banks and Societies....	,,	140
(8) Loans due : ...	,,	194
(a) Individuals. ...	,,	1
(b) Banks and Societies....	,,	193

4. **Period of Expansion.** In Bombay the Bombay Central Co-operative Bank had been well-established by the end of 1919-20, as couldbe judged from the remarks of the Registrar in the Administration Report of the Co-operative Department for 1920-21 in the following words :—

"It plays a leading part in shaping the policy or decisions of the Department in all financial questions, and inspection and guidance are increasingly beneficial to and appreciated by district central banks and even urban societies. It is in close touch

with financial circles in Bombay and acts as a recognized representative of the co-operative movement on its financial side in its relations to the Imperial Bank, to other Joint-stock Banks and to the Currency Office. By its influence it is enabled to obtain resources from the market to support co-operative institutions in times of stress or stringency."

In 1923, the Bank changed its name, with the approval of the Government, to the Bombay Provincial Co-operative Bank in conformity with its primary function as an Apex Balancing Centre for surplus and deficiencies in resources of its affiliated banks and its chief business of short and intermediate term loans to primary societies and advances to urban and central banks. It acted also as the agent to Government for distributing loans under the Land Improvement Loans Act. A notable effect of the change in its name was the grant of equal representation to the representatives of societies on its Board along with representatives of individual shareholders. In Madras, the constitution of the Executive Committee of the Central Urban Bank was changed and it was decided that the central Banks' representatives should have a majority on it. This was done by reducing the number of representatives of individual shareholders to five and only three Directors including the President and the Vice-President were required to have the residential qualification. In C. P. and Berar, the failure of crops, together with injudicious financing of societies, had put a severe strain on the co-operative financing system in the Province and in 1921, the Provincial Bank was obliged to suspend payment and 24 out of 34 central banks had to seek financial assistance from Government. The position of the Provincial Co-operative Bank was so bad that the King Committee recommended its liquidation, but fortunately the Government did not accept the recommendation. Nevertheless, the Bank had to enagage itself in rectifying its policy and it later undertook commercial banking activities. In Bengal, all seemed to go well, as could be seen from the observations of the Provincial Banking Enquiry Committee, which wrote : " All central banks are working satisfactorily and have evinced a remarkable aptitude for banking. They have fostered the cheque habit in the mofussil by the opening of current accouts for the general public and have encouraged

by establishing savings banks and provident fund accounts. By their businesslike methods, they can compare favourably with any organized bank in the country." In Bihar and Orissa, "the Provincial Bank was not much of a co-operative institution and it had not the will nor the staff to satisfy itself about the security of a loan sanctioned by it and the Directors busied themselves in canvassing favours from the Head of the Co-operative Department at such meetings." Thus all was not well with the Bank even on the eve of the great economic depression. During the decade following, three more Provincial Banks had come ito existence. In Assam, the Provincial Bank was started in 1923 with a paid-up capital of Rs. 5 lakhs, but the Board was not conversant with the banking methods. In the Punjab, the Provincial Bank was registered on 16th December 1924 at Lahore as a balancing centre for the activities of co-operative central banks and banking unions. The whole system formed a Federation with Primary societies at the bottom and the Provincial Bank at the apex. No individual was eligible to hold a share for the first three years of its inception. It arranged to control inter-central bank dealings—a function which was performed by the Registrar of Co-operative Societies before its formation. The Bank floated a debenture loan of Rs. 5 lakhs with guarantee of interest at 6 per cent by the Local Government in 1926 giving a floating charge over its assets in favour of the debenture-holders. The proceeds were utilised in financing the land mortgage banks. As a matter of policy, the Bank did not deal with primary societies at all, but acted as a balancing centre for the central banks. The pooled funds were then loaned out to central banks or were invested in trutsee securities from time to time. In Travancore-Cochin, the Trivandrum Central Bank was recognized as an Apex Bank even when there was no society to be served by it. The position of Provincial Banks on the eve of the great economic depression, i. e., 1928-29, is given below :—

		Amounts in lakhs
(1) No. of Banks.	...	10
(2) No. of Members :		
(a) Individuals (000)	...	2
(b) Banks and Societies.	...	18568

		(Amounts in lakhs)
(3) Paid-up Share Capital.	...	65
(4) Statutory and other Reserves.	...	36
(5) Loans and Deposits :	...	761
(a) Individuals.	...	423
(b) Societies.	...	102
(c) State Bank & Central.	...	218
(d) Government.	...	18
(6) Working Capital	...	862
(7) Loans issued :		
(a) Individuals.	...	196
(b) Banks & Societies.	...	567
(8) Loans outstanding :		
(a) Individuals.	...	7
(b) Banks & Societies.	...	489

5. **The Period of Depression and Rehabilitation.** The impact of the economic depression affected different provinces in different ways. In Bombay the Provincial Bank exhibited a remarkable flexibility to the change in economic conditions. It made larger loans to individual agriculturists who had suffered as a result of stoppage of finance to their societies. Thus good members of bad societies did not suffer. Despite the reduction in the number of central banks, and the impact of the depression the resources of the Provincial Bank were on the increase and loans made to societies also showed on the whole a rise. Its owned funds were also upward. The badly managed central banks had to be taken into liquidation and the number of central banks thus came down to 13. In Madras, the gravity of the situation had very early been recognized and proper measures adopted for rehabilitation on the recommendations of the Townshend Committee. The depression had also brought the weaknesses of the movement more prominently to the fore and had called attention to the defective loan policy, hitherto followed in the pre-depression period. The enormous rise in the percentage of overdues in agricultural credit societies emphasised the need for greater circumspection in the grant of loans with reference to the repaying capacity of the members and a scheme was formulated under which it was laid down that Panchayatdars should not

term loans should be eschewed. As this scheme could not work well, it was replaced by another, the object of which was to ascertain bad debts, grant extension of time in deserving cases and entrust the work to a special staff under a small committee appointed by a Central Bank. Although the number of affiliated banks and societies remained practically unchanged, the owned funds and deposits and working capital had recorded a rise, though there was a steep fall in the loans granted and loans outstanding by 1936-37. In Bengal the overdues in agricultural societies had assumed an alarming proportion and the recovery of interest was 51 per cent. in the case of the Provincial Bank. The Provincial Bank, according to an account given by the Registrar, Co-operative Societies, maintained a large fluid cover and that is why it was not experiencing any difficulty in meeting the withdrawals of deposits. But the amount of fluid resources maintained by the central banks being quite inadequate, the banks had lost the confidence of the investing public owing to their inability to refund the matured deposits. While analysing the reasons for deterioration that had set in, the Registrar observed : " Among these the tendency of the agriculturist to ignore his debt and his unwillingness to repay to the extent of his ability if he can avoid is prominent....There can be no denying the fact that the Proja movement, the election propaganda followed by the passing of the Agricultural Debtors Act and the amendment of the Bengal Tenancy Act have raised a hope during the last four or five years in the minds of the agriculturists that their lot is going to be improved in the future by substantial reduction or remission of their monetary obligations.........." In spite of the deterioration in the economic conditions, the position of the Provincial Bank and other financing agencies was satisfactory on the surface, as could be seen from a rise in the owned funds, deposits, and working capital of the Provincial Bank. Owing to the collapse of the Jute Sale Societies, the Bank had adopted a cautious policy in respect of its lendings with the result that there was a drop of about a crore of rupees by 1936-37. Similarly, although there was a rise in the working capital of central financing agencies there was a drop of about Rs. 1.80 crores in the amount of loan outstanding. The central banks could hardly recover 4 per cent. of their loans.

C. P. and Berar. The C. P. and Berar Provincial Co-operative Bank was cautious in making advances during the depression period. There was a satisfactory rise of about 62 lakhs in its working capital. There was, however, a reduction in the membership of central financing agencies. Their position had been rendered unsafe, as the whole amount due from the affiliated societies had become frozen. The rot that had set in in the co-operative credit movement had its own reaction on the central financing agencies and the total deficit in the case of 12 financing agencies was of the order of Rs. 16 lakhs.

Bihar. The policy of the co-operative movement in the first ten years after the separation of the province from Bengal was to leave the organization, finance and supervision of societies to non-official agencies like the honorary organizers with such help as the District and Sub-Divisional Officers could give. Although the Provincial Bank had undertaken the responsibility of supervision and inspection of societies, it had no independent machinery of its own to enquire into the affairs of central banks. The number of central banks in the Province had also multiplied rapidly in order to finance members of societies for all sorts of purposes including marriages and redemption of old debts. Obviously this policy was defective; in that the ground was never thoroughly prepared for organisation of co-operative societies. No suitable provision was made for the supervision of the movement by the Co-operative Department, as official intervention was regarded at that time as undesirable. During the period of depression, the proportion of recovery of dues of central financing agencies from their affiliates had gradually shrunk from 57 per cent. to 5 per cent. only and the Banks found themselves in difficulties as their short-term funds had got frozen. The main cause of the setback of the central financing agencies was attributed to the lack of initiative on the part of institutions themselves and that everything rested with the Department.

Orissa. Orissa was separated from Bihar in 1936. In the same year the Provincial Co-operative Bank was started in compliance with the general desire of the people to have a separate Provincial Bank of their own. The promoters had collected a borrow moneys from their societies, and that medium and long share capital of Rs. 11000. The Government of Orissa had

instituted some time back an enquiry into the conditions of the co-operative movement in the State. Pending the decision of the Government on the Report of the Committee of Enquiry, the Bank could not commence work. In 1939 the Government emphasised the need for a Provincial Bank and a revised set of bye-laws was framed with the approval of Government to suit the altered condition of the Movement, but due to certain technical difficulties in amending the bye-laws of an institution which had not started work, it was liquidated and the question of starting a new Provincial Bank was postponed.

The task of rehabilitation of the Co-operative Movement the details of which have already been referred to in an earlier chapter was not very easy and the Thirteenth Conference of Registrars recommended certain measures of rehabilitation. These measures were, firstly, persuasion of defauters to pay up the defaulted amount by grant of rebates in interest; secondly, the debts should be adjusted to the paying capacity of the borrowers and fixed for a sufficiently long period not exceeding 20 years; thirdly, long-term funds should be obtained either from Provincial Governments, or from Provincial Banks by enabling the latter to float debentures, the interest and principal whereof being guaranteed by Government. The subjoined table gives statistics relating to Provincial C-operative Banks during each of the two years viz., 1928-29 and 1938-39 :

		1928-29	1938-39
No. of Banks.	10		
No. of Members :			
(a) Individuals.	...	2000	4196
(b) Societies and Banks.	...	17917	19080
		(Amounts in lakhs)	
Owned Funds :	...	93	197.67
(a) Paid-up share capital	62		
(b) Satutory and other reserves.	31		
Loans and Deposits.	...	708	1086.91
(a) Individuals	401		
(b) Societies	107		
(c) Central and State Banks.	181	1928–29	1938–39
(d) Government.	19		

Working Capital.		801	1285.13
Loans issued :		677	633.27
(a) Individuals.	183		
(b) Banks and Societies.	494		
Loans outstanding :		401	637.03
(a) Individuals.	3		
(b) Societies and Banks.	398		

These statistics indicate that the number of Provincial Banks remained unchanged at 10. There was an allround increase in the membership, owned funds, working capital and loan operations.

6. **Provincial Banks during War-Time.** The process of rehabilitation of the co-operative movement was considerably aided by the spurt in agricultural prices during the world War II, as has already been mentioned in an earlier chapter. On the whole, the impact of the War on the co-operative movement had been very healthy and the efforts of the institutions themselves to effect reorganization had borne fruit. In 1944, in the United Provinces a Provincial Bank was organized. Two years later, the Ajmer-Merwara and Coorg Central Co-operative Banks were converted into Provincial Co-operative Banks and thus the number of Provincial Banks rose to 13 at the end of the year 1945-46. The subjoined table gives a comparative position of the Provincial Banks for two years, viz,. 1938-39 and 1945-46 :—

		1938-39	1945-46.
No. of Banks.	...	10	13
Membership :	...		
(a) Individuals.	...	4196	7728
(b) Societies.	...	19080	20057
		(Amounts in lakhs).	
Owned Capital.	...	197.67	302.63
Borrowings.	...	14.58	24.50
Deposits.	...	1072.88	2162.79
Working Capital.	...	1285.13	2489.97
Investments.	...	583.57	1474.86

		1938-39	1945-46
Fresh Advances :			
(a) Individuals.	...	257.37	843.60
(b) Banks and Societies.	...	475.90	844.32
Recoveries :	...		
(a) Individuals.	...	256.17	306.40
(b) Banks and Societies.	...	429.04	908.23
Loans outstanding :			
(a) Individuals.	...	30.12	200.86
(b) Banks and societies.	...	633.91	453.46
Profit or Loss.	...	+ 10.99	+ 14.43

These statistics reveal an all-round progress of Provincial Banks. There was an increase in the number of affiliates by about 1000, while the number of individuals also rose considerably owing to increasing preference given to individual members by making finance available to them in States like Bombay, Hyderabad and Madhya Pradesh. Deposits have also more than doubled and working capital rose by 100 per cent. The investments of the Provincial Banks were quite impressive at nearly 1½ crores of rupees. Fresh advances were up by 300 per cent. in the case of individual members, while loans to societies increased by 90 per cent. Repayments from societies more than doubled during the period. A feature of these statistics was that there was a decrease in loan outstandings from societies by about 180 lakhs while the amount due from individuals rose from 30 lakhs to 200 lakhs. Madras and Bombay alone accounted for nearly 70 per cent. of the aggregate working capital of all the banks.

7. **Post-Partition and Post-Independent Period : (1947-54).** The subjoined table gives comparative statistics relating to the working of Provincial Banks during 1947-48 and 1949-50:—

		1947-48	1949-50
No. of Banks.		11	14
Membership :			
(a) Individuals.	...	6508	7703
(b) Banks and Societies.	...	8505	10915

		1947-48	1949-50
		(Amounts in Lakhs).	
Owned Capital.	...	260.09	343.34
Deposits.	...	2006.47	2116.83
Borrowings.	...	138.80	585.25
Working Capital	...	2405.36	3045.42
Fresh Advances:	...		
(a) Individuals.	...	685.09	611.2
(b) Banks and Societies.	...	1587.64	2346.54
Recoveries :			
(a) Individuals.	...	644.45	592.52
(b) Banks and Societies.	...	1620.42	2577.32
Loans outstanding :			
(a) Individuals.	...	205.72	184.77
(b) Banks and Societies.	...	690.20	1226.92
Overdues.		154.90	197.58
Bad and Doubtful Debts.	...	N. A.	9.40
Investments.	...	1143.00	1157.40
Net Profit.	...	N. A.	23.80

The period covered by these statistics witnessed the partition of the country as a result of which the Provincial Banks in Sind and Punjab began functioning in Pakistan, and consequently there was a decline in respect of the number, membership, owned capital, deposits, working capital and investments of Provincial Banks in the Indian Union. The partition of Bengal and the consequent reduction in the number of central banks and societies remaining within the Indian Union brought about a decline in the transactions of another Provincial Bank (in Bengal). Three more Provincial Banks were registered during the period from 1947-50, and the statistics given above show considerable improvement in the position in regard to deposits, working capital and loan operations of the banks. Investments remained practically unchanged at Rs. 11.50 crores and ovderdues also showed an increase. During the period of the World War II and immediately thereafter, the main problem of the Provincial Banks was to find remunerative outlets for their idle surpluses, and the present period witnessed, however, a considerable demand for loans by co-operatives from their apex banks for financing both credit and non-credit activities. The Provincial Banks had, therefore,

to seek the financial assistance of the Reserve Bank of India and State Governments to meet the abnormal demands for funds. This is reflected in the rise in the figure of lendings by 585 lakhs in 1949-50. This demand came mostly from Provincial Banks in Bombay and Madras chiefly as a result of financing the distribution of cloth by co-operatives in the former and in the latter as a consequence of financing the procurement and distribution of foodgrains and other essential requirements of life by co-operatives. At the end of the year 1949-50, the number of banks stood at 14 with the registration of 3 more bnnks one each in Assam, Orissa and East Punjab. and The increase in individual membership was mainly fed by the Provincial Banks in Bombay, Madhya Pradesh and Assam. The increase in owned capital was contributed by the increase in the share capital of the Bombay Provincial Co-operative Bank, as it began functioning as the apex bank in the scheme of integrated agricultural credit. There were also satisfactory increases in the share capital of Provincial Banks in Madras, Madhya Pradesh and Hyderabad, together with negligible amounts of share capital on the newly organized Provincial Banks. There was a small increase in the amount of deposits contributed mainly by individual members rather than by Banks and Societies. The usual borrowing rate varied from ¼ per cent. on current accounts to 3% on fixed deposits in Bombay and from 4 to 5 per cent. in Assam. The sources for borrowings of the Provincial Banks were the Imperial Bank, the State Governments and the Reserve Bank of India. The percentage of owned funds to working capital was 7.8 while that of deposits to working capital was 69.5. There was a steep rise in loans outstanding which increased from Rs. 8.95 crores to Rs. 14.11 crores. Investments of the Banks mainly consisted of Government and other Trustee Securities. Advances to banks and societies increased nearly threefold from Rs. 8.44 crores in 1945-46 to Rs. 23.46 in crores in 1949-50. A satisfactory feature of the loan operations of Provincial Banks was the decline in transactions with individual members which had risen to abnormal height in 1945-46. The business of individual finance was particularly noticeable in the case of Provincial Banks in Bombay, Hyderabad and Madhya Pradesh. Loans were advanced in these Provinces against the security of agricultural

produce, gold and silver, Government and other Trustee Securities. In addition to these advances, the Bombay Provincial Co-operative Bank was making advances to adujsted debtors or to persons who were parties to proceedings under the Bombay Agricultural Debtors Relief Act as well as to creditworthy agriculturists under the scheme of integrated system of agricultural finance. Out of a total of Rs. 187.77 lakhs, loans outstanding with individuals in Bombay, amounted to Rs. 69.45 lakhs and formed a small proportion of total transactions. Bulk of these advances was made against agricultural produce to adjusted debtors and creditworthy agriculturists which cannot be classed as commercial. The total of advances made by the Madhya Pradesh Provincial Bank was more than three times the amount advanced to societies and was against the security of agricultural produce, while in Hyderabad, the amount advanced was nearly twice the amount advanced to societies against the security of immoveable properties.

Recoveries : Recoveries of advances made to individuals and societies were satisfactory. A major portion of the overdues related to the West Bengal Provincial Co-operative Bank whose investments had got frozen with societies in East Pakistan.

8. **Statewise Review.** It may be noted that the consolidated figures given in paragraph 7 do not give an exact picture of how the individual banks were working in their respective States. Their growth and development has not been uniform. There are banks which are extremely sound financially alongside of others which are weak in regard to their financial position and are, therefore, continually in need of assistance from the State. There are some which are functioning as semi-trading associations, while some others were concentrating their attention on trading activities, though ostensibly designed to look after the needs of the co-operative movement. A few Provincial Banks are very big institutions, while there are some others which are smaller than even district central banks. A brief description of the working of individual banks in the Indian Union except in Bombay is attempted in the following paragraphs:—

(1) **Madras.** The progress achieved by the Madras Provincial Co-operative Bank was quite satisfactory. As the procurement work entrusted to co-operatives in some of the districts required large funds for financing it, and as such amounts were large, in relation to its owned funds, it was necessary to raise the share capital of the Bank proportionately. All the Central Banks were permitted to subscribe up to 500 shares each, thereby raising the share capital of the Bank to Rs. 15 lakhs. In order to enhance its borrowing power still further, a sum of Rs. 5 lakhs was transferred from the depreciation reserve to the statutory reserve fund. Thus the reserve fund was thrice the amount of the paid-up share capital. There was also a satisfactory rise in the owned funds and the working capital of the Bank. A noteworthy feature of its working was the considerable rise in fresh loans advanced to its affiliates for financing the procurement of paddy and foodgrains. There was also a satisfactory increase in the amount of advances made for raising crops. The scheme of subsidy and subvention to central banks was continued. Owing to an increase in the amount of share capital of the Bank the question of reducing the rate of dividend payable on shares in conformity with the policies underlying the Co-operative Societies Act and in consonance with market conditions was under the consideration of the management.

(2) **Punjab.** The Provincial Bank operating for the undivided Punjab confined its operations to Pakistan. The void thus created was sought to be filled by the registration of a new apex bank for East Punjab which came into being on 31st August 1949 with its headquarters at Simla. It had a paid-up share capital of 1.43 lakhs and deposits to the tune of Rs. 67.09 lakhs. These included a large portion amounting to Rs. 34.15 lakhs under what was termed as "displaced persons' deposit account". No advances were made to individuals. Advances made to societies and banks during 1949-50 amounted to Rs. 22.45 lakhs of which Rs. 5.33 lakhs were repaid. Investments in gilt-edged securities stood at Rs. 20.23 lakhs. The Bank was able to show a small profit of Rs. 3392 on its working.

(3) **Bengal.** The area of West Bengal was reduced owing to partition to roughly one-third of the undivided province and

comprised two revenue divisions having thirteen districts in all and the Presidency Town of Calcutta. Out of a total number of 42,000 societies in the undivided province, only 12000 remained in the new State. Owing to a considerable reduction in the number of societies and migration of a large number of members of urban and employees' credit societies, a huge capital amounting to Rs. 2.69 crores was locked up in East Bengal, creating difficulties of an unprecedented nature for the West Bengal Provincial Bank. But fortunately, the crisis was averted by the timely assistance of the State Government which guaranteed the collection of Rs. 1.25 crores representing the good investment of the Bank in societies in East Bengal, the total gurantee being split up into 12 annual instalments. The State Government assumed control of the Bank through a Managing Director appointed by it in 1948. The realization of debts due to the Bank from societies in East Pakistan has been slow and halting. Out of the total investments of Rs. 156 lakhs, Rs. 154 lakhs were approximately overdue. There was also a deterioration in the position of deposits with the Bank to the extent of Rs. 94 lakhs. The decline was mainly accounted for by the withdrawal of deposits by individuals as a result of the repercussions consequent on the failure of joint stock banks in the Province as well as the withdrawal of surplus funds by central banks for financing cloth distribution. The Bank was, however, in receipt of liberal assistance from the State Government against its general assets as well as by way of collection of the annual instalments of investment in societies in East Bengal. The Reserve Bank of India also granted a loan of Rs. 50 lakhs after 1950 against the guarantee of the State Government for enabling the Bank to finance the raising and marketing of crops.

(4) **U.P.** During a short period of its existence, the U.P. State Co-operative Bank contributed much towards stabilizing the co-operative movement in Uttar Pradesh. It had owned resources to the extent of Rs. 17.62 lakhs, of which reserves alone amounted to Rs. 4.37 lakhs and deposits aggregated to Rs. 253.94 lakhs in 1949-50. The considerable increase in deposits was attributable to the creation of "cane-growers' fixed deposits" in 1949 under an order of the State Government,

directing compulsory deductions at the rate of As. 2 per maund from the price of sugarcane purchased by the factories and these amounts were deposited with the apex bank. There was a great expansion of the activities of the U.P. Co-operative Development and Marketing Federation and other co-operative institutions in the State under the new plan of co-operative development initiated by the State Government, with the result that there was a large demand for funds from the apex Bank. To meet this demand the Bank had to borrow a sum of Rs. 1 crore from the State Government, which was repaid in full with the exception of a small sum of Rs. 5 lakhs in 1948-49, but declined to Rs. 155.66 lakhs, in 1949-50.

(5) **Bihar**. The Credit Agricole Scheme was put into effect in 1945, the intention being to provide advances in kind in the form of seeds, manures and implements to members of co-operative societies and non-members as well, but in actual practice, cash sales were only permitted through central co-operative banks and its own depots. The Provincial Bank also undertook the distribution of cloth through co-operativee societies and functioned as a sole distributor of salt for South Bihar. Recently, at the instance of the State Government it took over the distribution of iron and steel materials for the manufacture of agricultural implements, and these activities were largely financed with the aid of funds obtained from the State Government. The value of sales of seeds, manure, cloth, etc. were during the three years ending 1950 of the order of Rs. 29.74 lakhs, Rs. 95.71 lakhs and Rs. 79.94 lakhs respectively. The Bank made a net profit of Rs. 5.54 lakhs during 1949. The Credit Agricole activities of the Provincial Bank and the central banks resulted in the improvement of the financial position no doubt, but in the sphere of their normal activities of financing the operations of agriculture, nothing tangible was achieved, as the loans advanced by the Apex Bank did not exceed Rs. 15.36 lakhs in 1949, while the amount of finance granted by the central banks was less than Rs. 10.13 lakhs.

(6) **Assam.** The co-operative movement in Assam was completely in a moribund condition in 1946 and the Provincial Co-operative Bank had practically become defunct. The New

Assam Co-operative Apex Bank was started in December 1948 to replace the old defunct Bank. The new institution started functioning in April 1949. A scheme was drawn up for the revival of the co-operative movement under Government control. Under this plan about 1000 multi-purpose societies called "trading co-operatives" were to be organized all over the State, together with 21 central trading organizations at sub-divisional levels to consolidate the activities of the primaries and to undertake bulk purchase and sale on their behalf. At the top of the organization, there was the apex Bank for financing the trading activities of the co-operatives and the tea-gardens. The Apex Bank opened 18 branches for the purpose. It had a paid-up share capital of Rs. 0.86 lakhs as on 30th September 1949 and its deposits amounted to Rs. 13.70 lakhs. It had borrowed Rs. 46 lakhs from the State Government for financing the distribution of yarn which was outstanding. The Bank relied more on the financial assistance received from the State for financing its normal activities. It granted overdraft accommodation to central trading co-operatives for different commodities handled by them. The Bank incurred a loss of Rs. 0.62 lakhs on its working during the year 1949.

(7) **Orissa**. The Orissa Provincial Co-operative Bank was registered in 1948. It started with a paid-up share capital of Rs. 1.76 lakhs which, together with reserves, rose to Rs. 4.09 lakhs in 1949-50. Its deposits stood at Rs. 12.31 lakhs. The Bank was mainly dependent on the State Government and the Reserve Bank of India for financing its activities. Borrowings from these two agencies amounted to Rs. 26.50 lakhs at the end of 1949-50. Besides financing central co-operative banks for credit purposes, the Bank financed non-credit activities as well such as distribution of cloth.

(8) **Coorg.** Owing to the compact area within its jurisdiction, the Provincial Bank in Coorg undertook the direct financing of primary societies. It had a small working capital of Rs. 13.23 lakhs at the end of 1949-50. It was, however, meeting all the legitimate needs not only of credit co-operatives but also of other institutions such as stores, marketing co-operatives etc.

It had also a separate section to which it granted long-term credit for which it had earmarked Rs. 3 lakhs.

(9) **Ajmer-Merwara**. Like its counterpart in Coorg this is also a tiny institution having a working capital of Rs. 17.34 lakhs as on 30th June 1950. It had a paid-up share capital of Rs. 1 lakh and reserves amounting to Rs. 4.12 lakhs. The Bank was financing primaries in some areas directly. It also acted as an authorized agent on behalf of the Civil Supplies Department for purchasing yarn on behalf of weaver societies.

(10) **Mysore**. In pursuance of the recommendations of the Chandrashekhar Ayyar Committee, the Central Banks in the State were liquidated, with the result that the Apex Bank was financing the primaries in the State directly. A major portion of its outstandings was either frozen or was of a long-term nature. The bad debts were reported to be of the order of Rs. 3.10 lakhs, to meet which the Bank had a meagre provision of Rs. 0.24 lakhs.

(11) **Madhya Pradesh**. The Madhya Pradesh Provincial Bank had a paid-up share capital and reserves, deposits and working capital of Rs. 22.10 lakhs, Rs. 189.12 lakhs and Rs. 220 lakhs respectively, as on 30-6-1950. During 1949-50, fresh finance made to individuals amounted to Rs. 407.01 lakhs as against Rs. 122.44 lakhs advanced to societies and banks. The loans outstanding against societies were Rs. 72.31 lakhs, while the amount due from individuals was Rs. 48.73 lakhs. The Bank was financing the long-term needs of the agriculturists through its Land Mortgage Section. Though the financial position of the Bank was strong, it was continuing to finance the needs of the individual members rather than those of societies.

(12) **Hyderabad**. The Hyderabad Dominion Bank had owned resources and deposits to the extent of Rs. 99.77 lakhs and Rs. 77.96 lakhs at the end of 1949-50. Loans to individuals made during the year 1949-50 were more than double the amount of finance granted to banks and societies. The amout of loans due from societies stood at Rs. 44.58 lakhs as against Rs. 21.22

lakhs from societies. Its borrowings were chiefly for the purpose of meeting the needs of individual members rather than those of societies.

From a brief account of the working of Provincial Banks given above, it will be seen that out of 27 States, only 14 had Provincial Banks. Of these only a few particularly those in Madras, Bombay and Uttar Pradesh could be mentioned as being financially strong ones. Provincial Banks in Hyderabad and Madhya Pradesh cannot, however, be considered as weak, but their policies were not fully co-operative. The Provincial Banks in Assam, West Bengal and Bihar were undergoing a process of reorganization involving State control. In the Bihar Provincial Bank, the Credit Agricole activities were more predominent and advances for co-operative business were negligible. In West Bengal, it would still be sometime before the frozen assets of the Provincial Bank get liquefied. There are a few States like Rajasthan, Madhya Bharat and Saurashtra which have recently come into the Indian Union where separate Provincial Banks are yet to be organized. It is gratifying to find that the Reserve Bank has taken particular interest in the work of reorganizing the weak Provincial Banks by deputing its officers to study their working on the spot and suggest lines of reform and has taken steps for the establishment of new Provincial Banks in areas where the Provincial Banks did not exist.

9. **Reorganization of Provincial Banks**. The following paragraphs indicate the lines of reorganization of apex banks chalked out by the officers of the Reserve Bank of India in consultation with the State Governments in some of the States as a result of examination of their position on the spot, in 1951.

(1) **Assam**. (i) The Assam Co-operative Apex Bank has no experience of agricultural credit and its activities were confined to the financing of trading co-operatives and tea-gardens. It should be reorganized in order to be an effective agency for the provision of agricultural credit. The moribund Provincial Co-operative Bank, which is still existing, should be either amalgamated with the Assam Co-operative Apex Bank or liquidated.

(ii) The share capital structure of the Apex Bank should be strengthened with Government help, if necessary.

(iii) Efforts should be made to tap local deposits : Government may permit its Departments and quasi-Government organizations to keep deposits with the Apex Bank.

(iv) The maximum borrowing power of the bank and the manner of investment of reserve fund must be clearly stated in the bye-laws.

(v) The rate of interest on lendings should be lowered.

(vi) With a view to reducing establishment charges, uneconomic branches must be closed.

(2) **Ajmer**. (i) The Provincial Bank should concentrate more on rural credit.

(ii) The Board of Directors may be reconstituted to include five representatives each of individuals, societies and Government.

(iii) The paid-up share capital should be raised to Rs. 2 lakhs initially and to Rs. 5 lakhs eventually. Government may subscribe an appreciable portion of this.

(iv) The Bank should limit its intermediate-term loans to its owned funds.

(v) The Bank should restrict its deposits to a maximum period of two years so that it may not have to pay the unusually high rates of interest it is paying at present.

(vi) Long-term loans to housing societies out of short-term funds should be discontinued.

(vii) Demand for the repayment of loans should be fixed at the time of advancing loans and not on the basis of the condition of the harvest.

(viii) The maximum rate of dividend should be 6 per cent.

(ix) The Provincial Bank may open about four branches at central places. Government may subsidise half of the recurring cost for a period of at least three years.

(3) **Bihar**. (i) Trading activities undertaken by the Bank should be completely separated from banking within a specified

period. The Bank should be a financing institution, pure and simple, for co-operatives.

(ii) The Bank should try to develop its banking side by opening current accounts for the public and by offering general banking facilities to individuals. It should make strenuous efforts to tap local deposits; this recommendation is applicable to all the co-operative credit institutions.

(iii) A Provincial Marketing Federation may be organized to take over the trading activities of the apex bank. The bank may, however, acquire interest in the new institution and be its financing agency.

(iv) The Bank should rationalise its management with a view to reducing its expenditure on staff.

(v) The maximum borrowing power of the Bank should be linked up with share capital and reserve fund, instead of the present arrangement of fixing an arbitrary limit at the annual General Meeting.

(vi) Statutory reserves should be separately invested in Government securites rather than being utilised in the Bank's business.

(vii) The Bank should take steps to strengthen the primary societies, enabling them to perform effectively their role of mobilising savings and supplying credit to members.

(4) **Bhopal**. The conversion of the Bank of Bhopal—a joint-stock bank—into an apex co-operative bank is recommended instead of the establishment of a new apex bank as the State Government already holds a large part of the share capital of the bank.

(5) **Coorg**. (i) The apex bank should accecpt current deposits and do other types of banking business of a riskless nature such as collection of cheques, bills, issue of drafts, etc.

(ii) Mixing up of short-term and long-term advances should be avoided.

(iii) In view of the different systems of land tenure and also to enable the land mortgage bank department to float debentures, a separate Land Mortgage Bank Act may be passed.

(6) **Hyderabad**. (i) The practice of 'one share one vote' should be modified to 'one member one vote'. Proxy voting should be abolished. The proportion of societies' representatives and individual representatives should be three to one so as to give the needed representation to societies on the Board of Directors.

(ii) The capital structure of the Bank should be strengthened.

(iii) The reserve fund of the Bank should be separately invested in easily marketable Government securities.

(iv) The maximum borrowing power of the Bank should be fixed in the bye-laws. A limit upto (twelve times the paid-up capital and reserves is suggested.)

(v) The Bank should make adequate provision for the depreciation in Government securities.

(vi) The Bank should stop long-term advances. The Bank should restrict its lendings to short-term and to a limited extent medium-term.

(vii) The Bank should discourage individual financing and increase its lendings to co-operatives.

(7) **Himachal Pradesh**. The Bank of Sirmur may be converted into an apex co-operative bank. The Government may guarantee the losses involved in this connection.

(8) **Madhya Bharat**. There is a keen demand for organizing an apex co-operative bank for the future development of the co-operative movement in the State. The proposal to organise this bank by amalgamation of the Indore, Ujjain and the Gird Central Co-operative Banks is supported. Government aid in the form of contribution to share capital of the apex bank is envisaged.

(9) **Mysore**. (i) The share capital structure should be strengthened.

(ii) Bad debts are fairly heavy. The evaluation of bad debts should be made carefully and adequate bad debts reserve should be built up.

(iii) Advances for agricultural credit are negligible.

(iv) Advances for intermediate and long-term purposes out of short-term deposits are contrary to sound banking principles and should be given up.

(v) The bank deals with credit societies at the bottom without any intermediary agency for disbursing agricultural credit to societies. The need for an intermediary agency, either in the form of branches of the apex bank or independent central banks has been stressed.

(vi) The reserve fund of the bank should be augmented by carrying $33\frac{1}{3}\%$ of the net profits to the fund instead of 25 per cent. as at present.

(10) **Orissa**. (i) The share capital of the apex bank needs to be augmented to Rs. 10 lakhs in a period of five years.

(ii) The bad debts reserve requires to be strengthened.

(iii) Efforts should be made to tap more deposits.

(iv) The bank should gradually reduce its commitments with regard to organization other than central banks so that in course of time it will function as a true apex bank.

(v) The ultimate borrower gets the Reserve Bank finance at 8 per cent. The question of margins retained at various levels needs to be examined with a view to a reduction in such margins.

(11) **Punjab**. (i) The maximum borrowing power should be specifically laid down in the bye-laws of the bank instead of its being fixed by the General Meeting. The borrowing power should be fixed at twelve times the owned capital of the bank.

(ii) The share capital of the bank, which now stands at Rs. 1.8 lakhs, needs strengthening. The State Government should come to the aid of the apex bank by contributing, say a sum of Rs. 15 lakhs, towards the share capital of the bank. Transitory constitution of the Board of Management with representatives of Government has been suggested.

(iii) The apex bank should actively supervise the institutions affiliated to it.

(iv) The apex bank may make loans to individuals against fixed deposits.

(12) **Pepsu.** An apex bank may be established and the Government should contribute substantially to the share capital of the new bank.

(13) **Rajasthan.** (i) Government should help in the establishment of an apex bank by subscribing towards its share capital.

(ii) Government may also grant a subsidy for the first five years so that the bank may declare a dividend and build up a sizeable reserve fund.

(14) **Saurashtra.** (i) The organization of an apex bank for the State is recommended, and a detailed scheme has been drawn up. Government may contribute Rs. 5 lakhs to the share capital with the option to the bank to redeem the shares after a period of three years.

(ii) Government may give a subsidy, in the initial stages and exempt the bank from payment of audit fees for a period of three years.

(iii) Maximum borrowing power may be fixed at 12 times the owned funds.

(15) **Travancore-Cochin.** Instead of an entirely new apex bank being organized, the Travancore and Cochin Co-operative Central Banks might be amalgamated and made to serve as the apex bank with headquarters at a business centre like Alleppey. A detailed inspection of these institutions should be carried out and the banks amalgamated after a correct estimate of their liabilities and assets is made. Government help in the shape of subscription to the share capital of the apex bank may also be given.

(16) **Uttar Pradesh.** (i) Government may contribute to the share capital of the apex bank to the extent the latter is required to contribute to the share capital of the central banks.

(ii) Bad debt and other funds may be further strengthened.

(iii) Advances for agricultural credit are negligible.

(iv) Advances for intermediate and long-term purposes out of short-term deposits are contrary to sound banking principles and should be given up.

(v) The bank deals with credit societies at the bottom without any intermediary agency for disbursing agricultural credit to societies. The need for an intermediary agency, either in the form of branches of the apex bank or independent central banks has been stressed.

(vi) The reserve fund of the bank should be augmented by carrying $33\frac{1}{3}\%$ of the net profits to the fund instead of 25 per cent. as at present.

(10) **Orissa**. (i) The share capital of the apex bank needs to be augmented to Rs. 10 lakhs in a period of five years.

(ii) The bad debts reserve requires to be strengthened.

(iii) Efforts should be made to tap more deposits.

(iv) The bank should gradually reduce its commitments with regard to organization other than central banks so that in course of time it will function as a true apex bank.

(v) The ultimate borrower gets the Reserve Bank finance at 8 per cent. The question of margins retained at various levels needs to be examined with a view to a reduction in such margins.

(11) **Punjab**. (i) The maximum borrowing power should be specifically laid down in the bye-laws of the bank instead of its being fixed by the General Meeting. The borrowing power should be fixed at twelve times the owned capital of the bank.

(ii) The share capital of the bank, which now stands at Rs. 1.8 lakhs, needs strengthening. The State Government should come to the aid of the apex bank by contributing, say a sum of Rs. 15 lakhs, towards the share capital of the bank. Transitory constitution of the Board of Management with representatives of Government has been suggested.

(iii) The apex bank should actively supervise the institutions affiliated to it.

(iv) The apex bank may make loans to individuals against fixed deposits.

(12) **Pepsu**. An apex bank may be established and the Government should contribute substantially to the share capital of the new bank.

(13) **Rajasthan**. (i) Government should help in the establishment of an apex bank by subscribing towards its share capital.

(ii) Government may also grant a subsidy for the first five years so that the bank may declare a dividend and build up a sizeable reserve fund.

(14) **Saurashtra.** (i) The organization of an apex bank for the State is recommended, and a detailed scheme has been drawn up. Government may contribute Rs. 5 lakhs to the share capital with the option to the bank to redeem the shares after a period of three years.

(ii) Government may give a subsidy, in the initial stages and exempt the bank from payment of audit fees for a period of three years.

(iii) Maximum borrowing power may be fixed at 12 times the owned funds.

(15) **Travancore-Cochin**. Instead of an entirely new apex bank being organized, the Travancore and Cochin Co-operative Central Banks might be amalgamated and made to serve as the apex bank with headquarters at a business centre like Alleppey. A detailed inspection of these institutions should be carried out and the banks amalgamated after a correct estimate of their liabilities and assets is made. Government help in the shape of subscription to the share capital of the apex bank may also be given.

(16) **Uttar Pradesh**. (i) Government may contribute to the share capital of the apex bank to the extent the latter is required to contribute to the share capital of the central banks.

(ii) Bad debt and other funds may be further strengthened.

	1952	1954
(10) Repayments :	(Amounts in lakhs)	
(a) Individuals.	716.49	858.16
(b) Banks and Societies.	4610.19	4033.68
(11) Loans Outstanding :		
(a) Individuals.	183.21	212.64
(b) Banks and Societies.	1817.89	2a56.37
(12) Overdues :	372.10	297.14
(13) Bad and Doubtful Debts	11.67	167.03

(Vide Review of the Co-operative Movement for 1952-54 by the Reserve Bank of India).

It will be apparent from these statistics that the efforts of the Reserve Bank of India to start new Provincial Banks in areas where they did not exist before, and for reorganizing and strengthening the weak institutions already in existence have borne fruit. As many as 7 Provincial Banks were ushered into being during the period covered by these statistics in the States of Andhra, Madhya Bharat, Pepsu, Rajasthan, Himachal Pradesh, Dehli and Travancore-Cochin. In the two latter States, the Central Banks were covnerted into Apex Banks. As against these new institutions that came into being, there was a decline in the number of Provincial Banks by one, as the moribund Provincial Bank in Assam was liquidated. Thus the number of Provincial Banks stood at 22 at the close of the co-operative year 1953-54. After the year 1953-54, two other Provincial Banks came to be organized, one at Jammu and Kashmir and the other at Bhopal. The following paragraphs indicate in general the working of the State Co-operative Banks.

(a) **Membership**. There was a rise in the number of members, both individuals and societies. The increase in the latter is partly attributable to the fact that there was an increase in the number of Provincial Banks and partly to the rise in the number of the existing institutions. Excepting Provincial Banks in Andhra, West Bengal and Punjab, all the institutions had individuals among their members. Individual members predominated in the case of Provincial Banks in Bombay, Madhya Pradesh and Assam.

(b) **Paid-up Share Capital and Owned Funds.** A rise of about Rs. 85 lakhs is noticeable in the paid-up share capital of Provincial Banks during the period, the total paid-up share captial amounting to Rs. 274.80 lakhs. Of this amount, Government. contribution alone amounted to Rs. 124.75 lakhs. This is as a result of the reorganization schemes recommended by the Reserve Bank of India and largely implemented by the State Governments. Thus the efforts of the Reserve Bank to strengthen the share capital of Provincial Banks have been reflected in the increases recorded. Even prior to this, the State Banks in Bombay and Orissa had received contribution to their share capital from their respective State Governments. There are also appreciable increases in the owned funds, the States of Bombay, Punjab, Assam and West Bengal largely accounting for the rise.

(c) **Deposits.** Deposits were up by Rs. 371 lakhs, the newly organized Provincial Banks contributing to this rise in a large measure. A noticeable rise was also seen in the amount of deposits in the case of the existing Provincial Banks, particularly in Bombay.

(d) **Borrowings.** The borrowings of Provincial Banks from such sources as the State Governments, Joint-stock Banks and the Reserve Bank of India showed a declining trend. The decrease was particularly marked in Bombay where there was a drop of 150 lakhs. The apex banks in Madras and Andhra received interest-free loans from the All-India Handloom Cess Fund constituted by the Government of India to the extent of Rs. 12.50 lakhs and Rs. 6.50 lakhs to be passed on to the primary weavers' societies through central financing agencies in their States. In West Bengal, the State Govenment had paid a sum of Rs. 70.37 lakhs on account of its guarantee for the investments of the banks locked up in East Bengal after the partition of the Country. Of this amount Rs. 15 lakhs had been earmarked by the State Government as fixed contribution to the share capital of the Bank. In Bihar the State Government continued to finance the Credit Agricole Scheme. Similarly, the Government in Pepsu had paid a sum of Rs. 2.50 lakhs to the Provincial Bank on account of its advances to societies in the N. E. S. Blocks. Included in the borrowings is the financial accommodation provided by the Reserve Bank of India to the apex banks for seasonal

agricultural operations and marketing of crops, at the concessional rate of 2 per cent. below bank rate. The amount of finance thus available and the number of banks receiving it showed a rising trend. Thirteen banks drew funds to the extent of Rs. 14.71 crores out of Rs. 16.32 crores sanctioned to them during 1953-54. A part from the loans given to State Co-operative Banks for agricultural purposes mentioned above, some of the Provincial Banks were also in receipt of finance for non-agricultural purposes. For example, the Madras State Co-operative Bank was sanctioned a credit limit of Rs. 30 lakhs for financing the purchase of yarn by the State Handloom Weavers' Society. Under Section 17 (2) (1) of the Reserve Bank of India Act, the Reserve Bank is enabled to help the State Co-operative Banks for financing bonafide commercial or trade transactions by the purchase or discount of bills or pro-notes arising therefrom.

(d) **Working Capital**. As a result of increases in owned funds, paid up share capital and deposits, the working capital also rose by Rs. 4.12 crores.

(e) **Investments**. Investments of banks in gilt-edged and other trustee securities including shares in co-operative concerns rose by 1.75 crores, and the difference between their book value and market value at the end of 1953-54 was of the order of Rs. 34.64 lakhs and the Banks had only Rs. 17.30 lakhs in their Depreciation Reserves to meet the depreciation in their market value.

(f) **Fresh Advances**. Fresh advances declined from 55.20 crores in 1951-52 to 51.77 crores in 1953-54. These included loans to individuals as well as to banks and societies. The decline in the amount of loans granted to individuals is due to the fact that the practice of making large advances to individuals is being discouraged by the Reserve Bank of India. The practice was given up in Hyderabad as a result of reorganization of the Dominion Bank. In Bombay the amount of loans to individuals rose to 320.80 lakhs in 1953-54. This is accounted for by the fact that there was an increase in the volume of produce-pledge loans issued to agriculturists and others. In Madhya Pradesh also loans to individuals were very high at Rs. 4.0 crores. The All India Rural Credit Survey Report has recommended in this context that "In the loan operations of the

State Co-operative Banks the demand for agricultural credit should receive the first priority." The report also emphasised that the supply of credit to medium and smallscale producers, i. e. agriculturists and village handicraftsmen is the primary function of the financing agencies and that loans to individuals should be given only to a very limited extent, i.e., against their fixed deposits with the Bank. Loans to individuals had to be made by the central financing agencies in States like Bombay in order to keep up the volume of their business as the legitimate outlets had dried up as a result of the great economic depression of 1930's. Thus during a period of ten years, prior to the outbreak of the World War II, individuals were the main supporters of the central and Apex Banks. During the period of World War II and sometime thereafter, they undertook in a national emergency the work of distributing controlled articles with the support of the state Governments. Though the post-war period witnessed a reversal of the trend of individual finance, still in a few States financing the individuals continued, to which a reference has already been made in a previous Chapter.

(g) **Recoveries.** Recoveries during 1953-54 were fairly satisfactory and there was decline in the overdues from 3.22 crores in 1951-52 to Rs. 2.97 crores in 1953-54. Thus overdues showed a slight decrease.

It may be noted in this connection that the working of Provincial Banks was to a large extent influenced by local conditions and problems they had to face. The problems they have to contend against are not uniform in all cases. In the newly organized banks, e. g., difficulties were of an organizational nature while the problems in older Banks related to their expansion and consolidation. The following paragraphs indicate a correct idea of the working of the individual Banks in some of the States except in Bombay, as it is proposed to describe the working of the Bombay State Co-operative Bank in greater detail.

(1) **Madras.** This period witnessed the bifurcation of the composite Madras State Co-operative Bank in September 1953, as a result of the formation of Andhra as a separate State. As the Bank was split up, there was naturally a reduction in the area of operation of the reconstructed bank and the number of affiliated

(4) **Uttar Pradesh**. The paid-up share capital of the Bank rose to Rs. 43.38 lakhs on 30th June 1954. Statutory and other reserves amounted to Rs. 50.80 lakhs at the end of 1953-54 including the surplus of canegrowers' deposits amounting to Rs. 102.21 lakhs. A total of Rs. 1. 82 crores had been received from the sugar mills, of which Rs. 79.79 lakhs were repaid, leaving a balance of Rs. 102.21 lakhs, as on 30th June 1954. With the fall of agricultural prices and the reduction in agricultural incomes the organization of new primary societies and reorganization of dormant ones were taken up and large funds were required for making agricultural finance and the demands were fully met in spite of the reduction in the amount of deposits owing to withdrawals of canegrowers' deposits. Though there was a rise in agricultural advances of the Bank, the Bank was making loans to individuals and the outstandings against them stood at Rs. 10.44 lakhs on 30th June 1954. Outstandings for trading activities formed 60 per cent. of total advances including advances to the Co-operative Marketing Federation.

(5) **Punjab**. There was a phenomenal rise in the share captial of the Bank which increased to Rs. 26.56 lakhs at the end of 1953-54 from 1.78 lakhs in 1951-52. This increase was fed by the contribution of the State Government to the extent of Rs. 10 lakhs and the subscription of the central banks and the banking unions which were directed to invest their statutory reserves in the share capital of the Apex Bank. Deposits also improved from 39.91 lakhs in 1952 to Rs. 46.29 lakhs at the close of 1953-54. Outside borrowings stood at Rs. 48.83 lakhs of which Rs. 47.71 lakhs were from the Reserve Bank and Rs.1.12 lakhs from the State Government. Investments were impressive at Rs. 53.21 lakhs and indicated that the Bank could not utilise its own resources for financing agricultural operations through central banks which received funds raised by the Apex Bank from the Reserve Bank. This was because the funds of the Reserve Bank were lent to central banks at cheaper rate because they were obtained at cheaper rates, and the constitutent central banks preferred the funds received from the Reserve Bank to the funds of the Apex Bank, as the latter would have been dearer.

(6) **Bihar**. A substantial portion of the resources of the Apex Bank were utilised as in previous years for financing trading activities. There was some improvement in advances to societies and banks from Rs. 24.82 lakhs in 1952 to Rs. 31.31 lakhs in 1954 and the outstandings stood at Rs. 33.88 lakhs at the close of 1954. Even so they formed only 23 per cent. of the total working capital of the Bank. The total volume of business done in cloth, iron, salt, chemical fertilisers, oilcake, coal etc. was of the order of Rs. 134.70 lakhs during 1953.54. Till the year 1952, the sales of commodities were made in cash, but during 1953-54 half the quantities of the commodities were sold on credit. The Bank has, however, not pulled its proper weight in rehabilitating the credit structure of the movement in the State. The primaries at the base and the central banks at the intermediate level remained in weak or dormant condition.

(7) **Madhya Pradesh**. The bank has been playing a more useful role in providing agricultural finance with the aid of funds received from the Reserve Bank of India. The loan sanctioned by the Reserve Bank of India was Rs. 135 lakhs against Government guarantee during 1953-54, which was fully utilized. The outstandings of central banks rose to Rs. 163.46 lakhs in 1953-54 from Rs. 106.34 lakhs in the previous year. An unsatisfactory feature of its working was the rise in advances to individuals, which rose to Rs. 53.15 lakhs as against Rs. 36.87 lakhs in 1952-53.

(8) **Orissa**. The working capital of the Orissa Provincial Co-operative Bank increased from Rs. 55.83 lakhs in 1951-52 to Rs. 65.03 lakhs as on 30th June 1954. There was a drop of Rs. 78 lakhs in the amount of fresh advances made to banks and societies and the outstandings remained practically unchanged at Rs. 48.57 lakhs by 30th June 1954. A loan of Rs. 2.44 lakhs given by the State Government to building societies was passed on through the central financing agencies in the State to the building societies during 1953-54.

(9) **Assam**. The resources of the Apex Bank were increased by a contribution of Rs. 10 lakhs to the share capital by the State Government and by borrowing from the Reserve Bank of India to

the tune of Rs. 45 lakhs during 1953-54. Of this amount Rs. 25 lakhs were for financing tea gardens and the balance for other agricultural operations. At the end of 1953-54 the outstandings against societies and individuals were Rs. 25.54 lakhs and Rs. 54.47 lakhs respectively. The decline in the amount of advances to societies was attributable to the cessation of work by a large number of trading co-operatives following the lifting of controls. Six selected central banks were associated with the Apex Bank in working the Rehabilitation Scheme and some progress was made in the matter of providing agricultural finance.

(10) **Hyderabad**. The credit limit sanctioned by the Reserve Bank of India to the Dominion Bank was of the order of Rs. 25 lakhs during 1953-54 and it was well utilized. A satisfactory feature of its working was the discontinuance of direct loans made to individuals against the pledge of produce, gold and jewellery and landed property. As regards apex institutions in other States, they had been newly organized and no progress worth mention had been recorded by them.

(11) **Relations of the State Co-operative Bank with the Reserve Bank of India.** The attitude of the Reserve Bank of India-vis-a vis co-operative banks was that of a lender of last resort till recently. The Rural Credit Survey Committee observed that the role of the Reserve Bank of India in the scheme of integrated rural credit is of crucial importance and represents the natural and logical evolution and adds to its own strength, soundness and ability in the discharge of its functions as a central bank of the country. The role of the Reserve Bank of India as a supplier of rural credit to State Co-operative Banks and the conditions under which financial accommodation is granted are described in a separate chapter later in this book.

(12) **Inspection by State Co-operative Bank.** State Co-operative Banks occupy a key-position in the rural credit structure and are considered eminently qualified for inspecting the working of their affiliated societies. Similarly, the Reserve Bank of India has a significant role to play in the system of integrated rural credit and as the central bank of the country is charged with the respon-

sibility of supervising the whole banking system in the country, it is preminently suitable for carrying out inspections. To judge from the form of inspection devised by the Bank to be carried out by its Inspectors, it would appear to be thorough, as it is intended to ensure that a state Co-operative Bank pulls its proper weight in the development of agricultural credit in its area of jurisdiction. Whether this role could be entrusted to the State Bank is a matter on which divergent views are held. One view is that the State Bank cannot do the job when the Reserve Bank has been doing well at present without subordinating its primary role as the central banking authority. The other view is that the State Bank of India being a public institution can be entrusted with the rural credit functions of the Reserve Bank.

(13) **The Bombay State Co-operative Bank Ltd**. The Bombay Provincial Co-operative Bank "has continued to be the most efficient institution in the co-operative movement of the Province and it plays a very leading part in shaping the policy and decisions of the Department in all financial questions and its inspections and guidance are increasingly beneficial to and appreciated by district central co-operative banks and even urban societies." In these words the Registrar of Co-operative Socities, Bombay State described the position of the Bombay Provincial Co-operative Bank in his administration report for the year 1920-21. Even prior to the issue of the Report of the Rural Credit Survey Committee, the Bank has been striving to reach every creditworthy borrower in the State under the integrated system of rural credit initiated some years ago. Under the scheme, the Provincial Bank has not only provided the initiative and guidance to the co-operative movement at all the stages of its development, but also supervision and control through the Bombay Co-operative Banks' Association in the State. It is, therefore, proposed to describe the working of this most important institution in greater detail in the following paragraphs, as it will prove interesting and instructive, and create an ameliorative interest in others.

(i) **Origin of the Bank**. How the Bank came into existence has already been mentioned earlier, and the same ground need not be traversed again. In the year 1924 the name of the Bank was changed to the Bombay Provincial Co-operative Bank, Ltd.,

to denote that the primary functions of the bank would be to serve as an Apex Bank balancing the surpluses and deficiencies in the resources of its affiliates. Nevertheless, the Bank continued to have direct relations with the primary societies in areas where independent district central banks had not been started.

(ii) **Aims and Objects**. Among the objects with which the Bank has been started, the following are the main ones:

(a) To serve as a balancing centre in the State of Bombay registered under the Co-operative Societies Act for the time being in force.

(b) To grant loans to co-operative societies registered under the Bombay Co-operative Societies Act, VII of 1925.

(c) To make advances to co-operative societies in the State registered under the Bombay Co-operative Societies Act, or their members or agriculturists upon the security of agricultural produce brought by them for sale to the bank or to members of producers' co-operative societies on the pledge of finished articles, provided the societies are affiliated to the bank.

(d) To organize the provision of credit for creditworthy agriculturists in all parts of the State and generally to function as an integrated State organization for the provision of agricultural and marketing credit to creditworthy agriculturists and to ensure efficient performance of functions relating thereto through central banks, banking unions and other co-operative societies.

(e) To receive money on current, savings, fixed or other accounts and to raise or borrow from time to time such sums of money as may be required for the purposes of the bank to such extent and upon such conditions as the Board shall think fit.

(f) To sell on commission on behalf of Co-operative Societies in the Bombay State or their members or of agriculturists, agricultural produce which may be delivered by them to the bank for sale.

(g) To purchase and supply on commission raw materials and other articles required by members of co-operative societies for weavers and other artisans and producers and to sell on commission on behalf of members of such societies finished products which may be delivered to the bank for sale.

(h) To draw, accept, endorse, buy and sell, negotiate inland bills of exchange and other negotiable instruments with or without security.

(i) To buy and sell for the legitimate investment of surplus funds and act as agents for buyers and sellers of securities of the Government of India or of the Government of Bombay or other securities specified in clauses (a), (b), (c) and (d) of Section 20 of the Indian Trusts Act.

(j) To establish and support or aid in the establishment and support of funds calculated to benefit employees or ex-employees of the bank or their dependents and connections of such persons.

(k) To open branches and agencies in any part of the State of Bombay with the previous sanction of the Registrar of Co-operative Societies, Bombay.

(l) To receive for safe custody securities and ornaments.

(m) To act as agents in the Bombay State for the Government of Bombay or for public bodies, public trusts or funds, local bodies and of State-owned or controlled endowments or funds or for any bank or bankers and to turn to account, the monies, securities or effects belonging to any one of them in such manner and on such terms as may be mutually agreed upon between the bank and the other party with the sanction of the Registrar.

(iii) **Constitution of the Board of Directors and Membership of the Bank.** At the outset the entire body of members of the Bank were individuals with the solitary exception of the Nagar Central Co-operative Bank. Before long the Directors felt the necessity of converting it into an institution with an increasing number of societies as members and the special facilities were afforded for the purchase of shares from the existing share-holders by the societies that were anxious to become members. Though a few primary societies took advantage of the facilities afforded, it was the central banks and urban societies that purchased shares to an appreciable extent. Since 1925, after the passing of the Bombay Co-operative Societies Act, it has been made obligatory on every borrowing society to become a member of the Bank. On 30th June 1954, there were 5748 society-members and 4258 individual members and their

aggregate paid-up share capital was Rs. 60.47 lakhs. Every member has only one vote. In order to enable members of agricultural credit societies to obtain advances against the security of valuables and agricultural produce, nominal membershoip was introduced in 1920. This membership is open to persons who are members of affiliated societies and who pay a fee of Rs. 2. The number of nominal members or 'B' class members was 3408 at the end of 1953-54. With the introduction of the B. A. D. R. Act a similar type of nominal membership called 'B' class membership was introduced which was open to individuals who were parties to proceedings under the Act to whom loans were advanced for the raising and marketing of crops. There are in all three classes of nominal or 'B' class members : (1) Members of primary societies affiliated to the Bank, (2) persons who were parties to proceedings under the B. A. D. R. Act, and (3) creditworthy agriculturists other than members of registered societies. A nominal member has no right to vote or participate in the profits or management of the concern nor are they held liable in the event of winding up. Before the Board of Directors was entirely reconstituted, as a result of the acceptance of the recommendations of the Credit Reorganization Committee, otherwise known as the 'Nanavati Committee', it consisted of fifteen members including the Mangaging Director. Of these fifteen persons three represented central banks, two urban banks and three agricultural societies (the election being conducted through the Branch Committees) while seven were the representatives of individual shareholders elected at the general meeting.

(iv) **Paid-up Share Capital.** The authorized share capital of the Bank excluding that subscribed by Government is Rs. 50 lakhs divided into 100,000 shares of Rs. 50 each. The Bank is authorised to increase this amount up to Rs. one crore at any time or sub-divide or consolidate the shares into shares of smaller or larger nominal amount than is fixed in the bye-laws, provided the same proportionate liability continued on the shares so reduced or increased as existed on the original shares before such sub-division or consolidation took place. The bye-laws authorise the Bank to receive from the State Government a contribution equivalent to the amount of share capital which the Bank may

subscribe to the shares of the central banks and banking unions on such terms and conditions as may be arranged between the Bank on the one hand, and Government and central banks or banking unions on the other. In addition to the share capital to be raised as mentioned above, the Bank may receive further share capital not exceeding Rs. 1 crore from the Central or State Government with liberty to repay it in whole or in part after a period of five years from the date of the receipt of such capital subject to the condition that this additional capital shall have the same dividend as the share capital under clause (a) above and that any amount of dividend in excess of 3 per cent. per annum shall be credited to a fund to be styled "Credit Stabilization Reserve" to be owned and maintained by the Bank. No voting rights shall attach to the share capital subscribed by the Central or State Government, but the Government shall have a right to nominate three Directors including one Financial Expert on the Board of Directors. During the year 1953-54 the paid-up share capital of the Bank rose to Rs. 60.47 lakhs inclusive of Rs. 26 lakhs contributed by the Government of Bombay. No new shares are allotted to individuals at present, but they are allotted to co-operative institutions for the purpose of affiliation, the premimum charged thereon being credited to the Statutory Reserve Fund. Of the total membership of 10016, co-operative institutions formed 57.4 per cent. and the share capital held by them was 70.4 per cent. excluding the share capital held by the Government.

(v) **Deposits.** Owing to the recession in commodity prices and the opening of trade channels, the flow of deposits in the co-operative banks was arrested. Contributions to the National Plan Loan and facilities offered by Government to attract rural savings through post office savings banks and cash certificates, diverted a part of the individual and institutional deposits which used to be kept with co-operative banks. In addition to these factors, the Administration Report of the Bank for the year 1953-54 mentions that due to the opening of branches by the commercial banks in areas served by this Bank and higher rates of interest offered by them as well as the closing of certain branches of this Bank in North Satara and Ahmedabad Districts, there was a

drop in deposits. On the whole, deposits fell from 938.93 lakhs in 1953 to Rs. 911.81 lakhs in 1953.54. Time laibilities stood at Rs. 3.39 crores forming 37.17 per cent. of the total deposits, while demand liabilities were higher at Rs. 5.73 crores forming 62.83 per cent. of total deposits. The ratio of time to demand liabilities was 1 : 1.61. The Bank maintained fluid cover which was more than adequate to meet the liabilities. The actual fluid resources available stood at Rs.491.58 lakhs while the amount of fluid resources required under Rule 18-A of the Bombay Co-operative Societies Rules, was Rs. 296.84 lakhs, leaving a surplus of Rs. 194.74 lakhs.

(vi) **Rate of Interest on Borrowings.** In the busy season the short-period deposit rates rose to 3 per cent. As a result, the average borrowing rate for deposits and loans increased by .13 per cent to 1.24 per cent. The trend of the average borrowing rate, management expenses and cost of borrowed funds during each of the 3 years ending 53–54 is indicated in the following table :—

	1951-52	1952-53	1953-54
1. Average borrowing rate for deposits and loans borrowed.	1.40	1.11	1.24
2. Management expenses to deposit and loan liabilities.	1.77	1.77	1.95
3. Net cost of borrowed funds including management expenses.	3.17	2.88	3.19

(vii) **Investments of the Bank.** Investments in Government and other Trustee securities stood at Rs. 4.96 crores at the end of 1953-54. The book value of the investments at the close of the year was Rs. 489.32 lakhs, while their market value was Rs. 477.96 lakhs. As 81 per cent. of the investments would mature within a period of ten years and the rest not later than 15 years, no additional provision for the depreciation in the value of securities was deemed necessary by the Board of Directors, as the existing provision was considered to be adequate.

(viii) **Owned Funds and Working Capital.** Total reserves of all kinds were Rs. 57.22 lakhs at the end of the year 1953-54.

The reserve for overdue interest was augmented by Rs. 22,000 and the Credit Stabilization Fund created out of the dividend paid to the share capital subscribed by Government stood at Rs. 1,25,792.

(ix) **Inland Exchange Operations and Remittance of Funds.** As banker to co-operative banks not only in the Bombay State, but in other States as well, the Bank functions as a clearing centre at Bombay and other commercial centres through its branches and affiliated co-operative banks. The Bank has reciprocal arrangements for collection of bills and for drawal of demand drafts with co-operative banks and approved commercial banks in 250 cities and towns in the Bombay State. The district central co-operative banks and their branches and urban co-operative banks in the Bombay State have arrangements for remittance of funds through the State Bank of India or the Government Treasuries to Bombay and *vice versa*.

(x) **Mutual Arrangement Scheme.** Under the auspices of the Bombay Co-operative Banks' Association, the district co-operative banks and urban banks which are members of the Associa- ıion, have evolved a scheme for facilitating collection of bills drawn on various centres or transfer of funds by drawing demand drafts on each other's offices at concessional rates of exchange. Under this arrangement, the banks operate through this Bank at Bombay as if they were branches so that they are not required to maintain separate accounts with the various offices. This has greatly facilitated co-operative banks in the Bombay State to expand their banking operations and extend to their members and customers the same facilities in respect of collection of bills and remittances as are offered by commercial banks through a network of their branches.

(xi) **Remittances through the Reserve Bank of India.** The Reserve Bank of India has extended facilities for remittance of funds once a week between the Bank and its branches and/or the District Central Co-operative Banks and their Branches to their accounts with the Bombay Office through the Branches of the State Bank of India. Under this arrangement, remittances from banks amounted to Rs. 151.05 lakhs during 1953-54. Remittances through Sub-Treasuries and the State Bank of India on payment

of remittance charges amounted to Rs. 374.88 lakhs during the same period. Remittances from Bombay Office to the Branches through the Reserve Bank of India amounted to Rs. 256.69 lakhs, while similar remittances to central and urban banks and their branches amounted to Rs. 494 lakhs.

(xii) **Transit Insurance.** Cash in transit and in safes at Branches and at the Head Office is insured against theft or robbery and the insurance premia paid amounted to Rs. 18,434.

(xiii) **The Bombay Bankers' Clearing House.** The Bank is a member of the Bombay Bankers' Clearing House and co-operative banks in Greater Bombay are admitted as sub-members. Their number stood at 25. This has enabled the Bank to offer facilities for clearance of cheques drawn on this Bank and its sub-members. The number of cheques cleared per day was 1543 and the average amount of cheques drawn on the Bank per day was Rs. 20.67 lakhs; while that drawn on other banks and presented through the clearing house was Rs. 28.40 lakhs.

(xiv) **Branch Banking.** From the outset it was realized that in areas where the Bank operated as a district central bank and transacted business on a large scale, it should establish some links with societies in the area by opening a branch and in pursuance of this policy the first Branch was opened at Baramati in the Poona District when the Bank took over the Government's loan operations in the Nira Canal tract. The next Branch opened was at Kopergaon to serve the groups of societies for sugarcane-growers on the Godavari Canal in the Ahmednagar District. After 1920, the policy of establishing branches so as to be in close and constant touch with the societies and their members began to be followed. The branches are generally opened at the district headquarters and taluka towns. Where the volume of business is small, a sub-branch is started but it is not kept open throughout the week, and all types of banking operations are also not conducted. Moreover, in some districts arrangements are made for opening pay offices in central villages for the receipt and disbursement of loans. At the close of the co-operative year 1954, there were in all 69 branches and sub-branches of the Bank. The Bank functioned as central financing agency in the districts

of Nasik, Kolaba, Dangs, Nagar, West Khandesh, Sabarkantha and Banaskantha having 45 branches and in parts of nine other revenue districts of Thana, Sholapur, Kolhapur, Panch Mahals, Ahmedabad, Amreli, South Satara and Ratnagiri, with 25 branches. The Viramgam Branch in Ahmedabad District was closed on 30th June 1954.

(xv) **Revised Constitution of the Board of Directors.** The business of the Bank is carried on and managed by the Board of Directors as hereunder provided.

(A) Representatives of such District Central Co-operative Banks as have agreed to accept by provisions in their Bye-laws, inspection and supervision of this Bank for the purpose of providing agricultural credit and as have contributed to the share capital of this Bank to the extent of 1/20th of their own paid-up share capital as on 30th June of the preceding year.	One from each District Central Co-operative Bank
(B) Where the State Co-operative Bank functions as a central bank (i) Representatives of Affiliated Societies—one from each of the Districts of (1) Nasik, (2) West Khandesh, (3) Ahmednagar, (4) North Satara and South Satara, (5) Thana and Kolaba, (6) Panch Mahals and Ahmedabad.	Six
(ii) From the remaining Districts or parts of districts.	Not more than three
Bye-law 62 : (C) Directors representing Banking Unions and other agencies functioning as central financing agencies for a part of a district as have agreed to accept by provisions in their bye-laws, inspection and supervision of this Bank for the purpose of providing agricultural credit and as have contributed to the share capital of this Bank to the extent of 1/20th of their paid-up share capital as on 30th June of the preceding year.	Two

(D) A Director representing the Bombay Co-operative Marketing Society.	one
(E) Directors representing such Urban Banks, as have contributed to the share capital of this Bank to the extent of 1/20th of their own paid-up share capital as on 30th June of the preceding year.	Four. One from each linguistic Division and Greater Bombay
(F) Directors representing individual members (Class A) and Co-operative Societies not members of electoral constituencies under Bye-law No. 62 (A), (B), (C), (D) and (E).	Five
(G) Directors representing the State Government as provided in Bye-law No. 3 (d), including one Banking or Financial Expert to be nominated inThree. consultation with the Chairman of the Board of Directors.	Three
(H) Managing Director.	(Ex-Officio).

The Board of Directors as constituted above consists of 34 directors representing different constituencies as listed below :—

	No. of Directors.
(1) Directors nominated by the District Central Co-operative Banks.	1
(2) Directors representing affiliated co-operative societies in the districts where the Bank functions as a central bank.	6
(3) Directors elected by Co-operative Banking Unions and other Financing Agencies for a part of a district. ...	2
(4) Directors elected by Urban Co-operative Banks. ...	4
(5) Director nominated by the Provincial Co-operative Marketing Society. ...	1
(6) Directors elected by individual shareholders. ...	4
(7) Representatives of the Bombay State Government. ...	3
(8) The Managing Director (Ex-Officio). ...	1
Total...	34

(xvi) **Qualifications of Directors and their Election.** The qualifications of a Director to be elected under clause (f) of Bye-law 62 shall be his hlolding 20 shares in the Bank. The Central Banks, the Bombay State Co-operative Marketing Society and the State Government are required to nominate their representatives on the Board every year. Every alternate year the members present at the ordinary Annual General Meeting shall elect Directors to represent shareholders under clause (f) of Bye-law 62. All Directors so elected shall retire every alternate year and shall be eligible for re-election. Directors representing co-operative societies under clauses (b), (c) and (e) of Bye-law 63 shall be elected every alternate year. The qualifications of Directors to be elected by each of these electorates and the mode of their election shall be governed by rules to be made from time to time by the Board of Directors. A Director nominated or elected shall hold office until the next nomination or election by the electorate by which he was chosen. Any casual vacancy occurring in the Directors elected under clauses (b), (c), (e) and (f) of Bye-law 62 shall be filled up by the Board and the person so appointed shall retain office until succeeding election by the respective electorate.

(xvii) **Executive Committee.** The Executive Committee consists of twelve persons elected annually from amongst the Directors of whom three are from among the directors representing central banks and the Registrar representing the State Government. The Executive Committee meets every month and is responsible for the administration of the Bank. The Executive Committee appoints a sub-committee every quarter, consisting of the Chairman, the Managing Director and three members of the Executive Committee and has delegated to it its powers to facilitate day-to-day business of the Bank. The Sub-Committee meets every week. In addition to this Sub-Committee, the Board of Directors appointed three other Special Committees during the year as under :—

(a) Agricultural Credit Sub-Committee.—Loan applications from 'A' class members of the Bank for agricultural purposes are considered by this Committee. As this type of finance is

being now discouraged with a view to persuading the members to seek accommodation from the local societies, this Committee met only once during the year to consider only one application. The Committee consisted of nine Directors.

(b) Law Sub-Committee.—This Committee consisted of six Directors for consideration of legal matters referred to it by the Board or the Executive Committee.

(c) Staff Sub-Committee.—This Committee consisted of five Directors and it considered questions relating to staff. This Committee recommended revision of grades and salary-scales and allowances and sanctioned service regulations during the year 1953-54.

(xviii) **Branch Committees.** Branch Committees are formed in the Branches having more than 40 affiliated societies. The Branch Committees are elected by the affiliated societies and are authorized to sanction loans and credits under certain conditions. The Committees are consulted on local matters and serve as a link between the affiliated societies and the Board. The Branch Committees are a sort of electoral college for electing directors representing affiliated societies in areas where the Bank functions as a central financing agency directly. Unlike the Advisory Committees or local committees attached to branches of commercial banks, these Branch Committees are elected by the affiliated societies. The Branch Committees, when properly educated in the organisation of rural credit, would assist in the planned development of institutional agricultural credit organization, by imparting initiative and local knowledge. At the end of the year 1954, there were 40 Branch Committees having 204 members. Of these 29 Branch Committees were authorized under Bye-law 72 (i) (2) to sanction credits to agricultural societies within specified limits. Loans and credits amounting to Rs. 47.65 lakhs were sanctioned to 675 societies during the year. Budgets for the the expenses such as travelling allowance for attending meetings or visiting societies are approved by the Joint General Meetings of affiliated societies and the requisite grants are sanctioned by the

Board. Total grants amounting to Rs. 6775 were sanctioned during the year.

(xix) **The Integrated System of Agricultural Finance.** The next chapter will be devoted to a discussion of this subject, suffice it here to say that on the recommendations of the Agricultural Credit Organization Committee (Nanavati Committee-1947), the State Co-operative Bank and the District Central Financing Agencies accepted the responsibility of providing agricultural finance for raising crops to every creditworthy agriculturist in the State, with the financial aid made available from the State Government and the Reserve Bank of India. The sub-joined table indicates the extent of progress made since the Apex Bank and the central financing agencies assumed this responsibility.

(Vide Administration Report of the Bank for 1954)

(Amount in lakhs of rupees)

	1946	1951	1953	1954
Agricultural Societies :				
No of Societies. (Credit and M. P. Societies).	4,796	9,429	10,080	10,591
Membership (in lakhs)	2.32	6.99	8.20	8.87
Paid-up Share Capital	51.44	226.44	323.44	380.89
Reserve and other Funds.	111.95	216.05	182.66	195.41
Members' Deposits.	17.56	141.17	76.71	77.65
Working Capital.	306.82	1069.35	1443.21	1546.60
Total Agricultural loans Outstanding with members.	212.43	719.94	1126.22	1221.65
Average loan per member.	91	124	148	126
Average membership	48	73	81	83

				(Amount in lakhs of rupees)
	1946	1951	1953	1954
C. F. As :				
No. of C. F. As.(including Bombay State Co-operative Bank)	13	25	25	25
No. of their Offices	140	231	254	272
No. of affiliated societies	6278	12,954	14,763	15,443
Paid-up Capital.	56.54	140.23	169.35	182.14
Reserve and other Funds	62.70	140.23	169.35	182.14
Deposits	1178.85	1919.48	2124.18	2263.40
Loans due from Co-operatives	196.9	958.69	1019.36	1083.37
Working Capital	1408.13	2552.83	2766.37	2989.19

Note:—The above figures are approximate. The figures for 1946 and 1951 do not include the Indian States merged in Bombay State.

(xx) **General Observations.** In order to take a survey of the progress made by the Central Financing Agencies in the matter of providing agricultural finance to creditworthy agriculturists in the State, a meeting of the representatives of the Central Financing Agencies and their senior officers was convened in March 1954. The meeting was also attended by the officers of the Agricultural Credit Department of the Reserve Bank of India, Divisional Assistant Registrars, the Registrar, the Secretary to the Development Department, Bombay Government, and the Rural Development Commissioner. This meeting undertook a review of the progress made by the C. F. As and of the measures taken to evolve a more scientific crop loan system instead of annual loans. Prof. Gadgil observed at this meeting : " What we should remember here is that firstly, we are trying to carry out through the co-operative movement a state of giving credit

for production and other purposes to the maximum extent we can, compatible with the banking security, and secondly, what we are trying to do here is going to affect materially what happens in the country as a whole." There are 34,600 villages in the Bombay State with 10,600 agricultural credit and multi-purpose societies, having a total membership of 8.87 lakhs serving roughly about 15,000 villages. The average loan per member was about Rs. 126 which is not adequate if the requirements of growing commercial crops like sugarcane, cotton, tobacco and potato are taken into consideration, as these crops require considerable cultivation expenses in cash for seed and manuring. The question of providing production credit to the sub-marginal or the tenant-cultivator has yet to be satisfactorily solved. The economically backward and under-developed areas and backward communities have yet to be brought within the co-operative fold. An investigation made by the management of the Bank to measure the extent of agricultural requirements of the entire agricultural industry in the State showed that for the cropped acreages of different crops in the State the amount required was of the order of 108 crores. Of this nearly 50 per cent. may have to be provided by co-operatives if the institutional credit organization is ultimately able to replace the private agencies, whereas the present production finance advanced through co-operatives is Rs. 12 crores. The past performance of the borrower and the societies' insistence on sale of produce through a neighbouring co-operative sale organization, proper ascertainment of crop acreages and fixation of different scales of finance based on proper investigation of the productive capacity of the soil, introduction of improved methods of cultivation and lastly, the financial and administrative efficiency and resources of the local societies were emphasised by the management of the Bank, if the institutional credit system were to be satisfactorily carried out.

(xxi) **Loan Operations of the Bank.** The total advances of all types to societies and individuals including bills discounted stood at Rs. 572.76 lakhs at the close of the year 1953-54. The sub-joined table indicates the outstandings under different types of loan operations at the close of 1954 as compared to previous four years :—

1954 It will be seen from the two tables given above that the total agricultural loans including crop loans under the B. A. D. R. Act stood at Rs. 249.36 lakhs showing an increase of 8% over last year's outstandings.

(xxiv) **Advances to Central Financing Agencies.** The district co-operative banks and banking unions obtain financial accommodation for financing agricultural and marketing societies from the Reserve Bank of India through this Bank. For their other banking operations or for financing other types of societies, they have arrangements with the Bank for overdraft against Government securities and sometimes for cash credit. During the year 1953-54, 20 central financing agencies from the Bombay State and 4 apex co-operative banks in other States were given financial accommodation, the latter being against git-edged securities. The limits sanctioned to and outstanding with financing agencies at the close of the last two years are indicated in the following table :—

Types of Accommodation.	Amount outstanding. 1953	1954	Amt. sanctioned 1953	1954
1. Cash Credits.	2.67	10.19	22.50	17.95
2. Overdraft against Govt. Securities.	5.10	4.15	120.36	133.13
3. Fixed loan.				
(i) Against Bank's fixed deposits.	—	—	—	—
(ii) Against Govt. Securities.	—	—	—	1·0

(xxv) **Distress Loans.** Scarcity and famine conditions continued druing the year in parts of the Ahmednagar and Panch Mahals Districts. Land revenue was suspended in some villages where the crops had entriely failed. There were no repayments in consequence. On the other hand, there was demand for fresh loans for seed and fodder and for next year's agricultural operations. Additional finance in 84 societies to the extent of Rs. 1.45 lakhs was made. Similarly, in the Kolhapur District there were heavy floods which washed away newly sown crops, especially in the low-lying areas by the river-side. Additional dozes of

manures had to be given specially to the sugarcane and paddy crops. Additional loans to the extent of Rs. 37,700 were allowed to members of 38 societies.

(xxvi) **Arrears of Agricultural Loans.**

(a) **Authorised overdues.** Owing to the failure of monsoon crop conditions in parts of Nagar, Nasik and Panch Mahals were unsatisfactory Extensions were, therefore, granted in 220 societies to the extent of Rs. 2.52 lakhs wherever partial repayments were made.

(b) **Unauthorized Overdues.** The subjoined table indicates the position in regard to unauthorised arrears for a period of three years ending 30-6-1954.

Year.	Unauthorised arrears.	Percentage to total dues.	No. of Societies in which overdues occur.
1951-52.		(Amounts in Lakhs)	
(a) Short-term	33.13	18.9	867
(b) Crop Loan	774	21.4	588
1952-53.			
(a) Short-term	50.79	23.6	999
(b) Crop Loan.	8.66	26.5	340
1953-54.			
(a) Short-term.	31.13	13.8	812
(b) Crop Loan.	3.27	12.8	148

(xxvii) **Intermediate-term Loans.** There has been a demand for intermediate-term loans during recent years from cultivators for improvement in agriculture. A number of applications were, therefore, received for the purchase of oil-engines or for deepening of wells. In the Community Projects areas in Thana and Kolaba Districts, a proposal for purchase of bullocks was accepted. There was in Kolhapur District demand for intermediate-term loans for the Dharan Irrigation Society. During 1953-54, 84 societies were granted intermediate finance to the extent of Rs. 2.91 lakhs of which Rs. 1.75 lakhs were for purchase of oil-engines and pumping sets and about Rs. 30,000 for repairs to or for sink-

ing of wells. The outstandings at the end of the year amounted to Rs. 2.41 lakhs. The loans for purchase of oil-engines are made subject to the condition that the borrower is able to provide one-third of the cost out of his own resources.

(xxviii) **Finance for Special Crops.**

(a) **Sugarcane** : Since the introduction of the crop loan system, adequate finance is being provided for crops like sugar-cane and potato on the Deccan Canals, and a large number of societies in Nagar and Nasik Districts are specializing in financing this crop by giving adequate credit for purchase of manures in adequate quantities and for havresting. In the Kolhapur District manures like sulphate of ammonia and oil-cake were supplied through the depots of the Shetki Sahakari Sangh Limited. The average yield per acre of an average member on the lift irrigation in Kolhapur and on the canal irrigation in the Ahmdenagar District has increased by 20 per cent. The total area under sugar-cane was 23,000 acres for which aggregate loans amounting to Rs. 84 lakhs were given as shown below.:—

Name of the District	No. of Societies financed	Acreage of sugarcane	Outstanding at the close of the year	Amount sanctioned (in lakhs)
(1) Ahmednagar.	117	13175	39.72	56.66
(2) Kolhapur.	175	9000	20.14	20.14
(3) Nasik.	15	1100	7.50	7.50
(4) Individual Creditworthy agriculturists.	7	100	0.60	0.60
	914	23375	67.96	84.90

(b) **Potato Crop** : Potato crop is grown in a few places in Nasik, North Satara, Poona, Ahmednagar and Banaskantha Districts. Owing to transfer of North Satara District the Bank provided finance for this crop mainly in Nasik and Banaskantha Districts. The societies usually purchase potato seed from Simla and supply the seed and manure-mixtures to their members. At

Deesa in Baroda District, the river-bed cultivation requires heaviest dozes of manuring, and a larger quantity of seed, and therefore, the maximum of loan allowed in Nasik and Nagar Districts was Rs. 400 per acre, while the same at Deesa was Rs. 800 per acre. Thirtyeight societies in all were sanctioned loans amounting to Rs. 9.70 lakhs during the year under review, of which the outstandings were Rs. 1.7 lakhs by the end of the year 1954.

(xxix) **Finance to Marketing Co-operatives.** The Bank provides financial accommodation to marketing co-operatives and to multi-purpose societies for financing their marketing operations and for supply of agricultural requisites. The subjoined table indicates the volume of finance made available to purchase and sale societies and multi-purpose societies during a period of three years ending 30-6-54.

(Figures in lakhs).

Year.	Purchase and Sale Societies. Credit Limits.	Purchase and Sale Societies. Outstanding.	Credit and Multi-purpose Societies. Credit Limits.	Credit and Multi-purpose Societies. Outstanding.
1951–52.	60.50	29.03	28.13	11.79
1952–53.	28.22	15.01	18.16	6.47
1953–54.	30.59	16.06	12.93	7.19

Expansion of agricultural credit without being effectively linked with marketing and repayment of loans through the sale-proceeds of crops for which the credit was granted is exposed to grave risks particularly when the prices are falling and the agriculturist-borrower is yet to be diciplined in the institutional credit system. During 1953-54, 48 marketing organizations handled business of supply of agricultural requisites including manure and fuel-oil for oil-engines and sold agricultural produce as shown below :—

	(Lakhs.)
Value of agricultural produce of members sold.	162
Value of agricultural produce Non-Members sold.	43
Total Rs.	205

Value of agricultural requisites supplied was Rs. 204 lakhs. Out of the sale-proceeds of the crops sold, Rs. 44.25 lakhs were directly credited to the societies towards repayment of loans borrowed by their members.

(xxx) **Banks' Shops for Sale of Produce.** In a few places, purchase and sale unions were liquidated and the Bank was urged by the Co-operative Department to open its shops to replace those of the societies taken into liquidation, so as to provide marketing facilities to the members of co-operative societies. The volume of produce sold in West Khandesh and Sholapur Districts through its own shops is indicated in the following table—

District.	No. of Societies Served	Value of produce sold.	Bank's Investments in Shop
(1) West Khandesh.			Rs.
Various Talukas.	149	19.34 lakhs	39,200
(2) Sholapur.			
Akluj.	28	5.14 lakhs	91,300

(xxxi) **Finance to Processing Societies.** The success of the Pravara-Nagar Sakhar Karkhana is due to the very great amount of financial assistance given to the Society by the apex Bank. The Bank sanctioned a cash credit of Rs. 20 lakhs to the Society, which was operated to the full and the outstanding at the close of the co-operative year 1954 was Rs. 5.63 lakhs.

(xxxii) **Finance to Farming Societies.** The Bank grants short-term finance required by co-operative farming societies for cultivation of crops. During the year under review, four joint farming societies were sanctioned crop loans amounting to Rs. 5.37 lakhs and the outstandings stood at Rs. 5.25 lakhs.

(xxxiii) **Finance to Irrigation Societies.** Two of the societies in the Kolhapur District, viz., the Sangrool Dharan Society on the Kumbhi River and Chaye Dharan Society on the Dudhaganga River, were advanced loans of Rs. 50,000 each in the initial period, and a third society at Surpali in the Kagal Taluka on the Vedganga River was sanctioned a similar loan of Rs. 50,000 in order to enable the society to complete the work as it took some time to obtain loan from the Government.

(xxxiv) **Cash Credits, Loans and Overdrafts to Urban Banks.** The following table indicates different types of financial accommodation granted to urban banks and societies and outstandings thereof during a period of three years, ending 30th June 1954.

Year.	Overdrafts on current accounts.		Loans against Government Securities.	
	Limits sanctioned.	Outstandings.	Limits sanctioned.	Outstandings.
	(Figures in Lakhs)			
1951-52.	171.65	66.16	6.92	6.16
1952-53.	189.52	67.07	0.58	0.58
1953-54.	224.27	57.26	2.55	2.35

Year.	Loans against F.Ds.		Cash Credits against pledge of Goods.	
	Limits sanctioned.	Outstandings.	Limits sanctioned	Outstandings.
1951-52.	2.35	0.20	9.06	2.08
1952-53.	0.01	0.01	7.14	2.71
1953-54.	7.16	0.34	9.50	3.48

(Figures in Lakhs)

Year.	Loans and Cash Credits against General Assets.		Total Outstandings.
	Limits sanctioned.	Outstandings.	
1951-52.	45.90	28.95	103.55
1952-53.	23.02	14.99	85.36
1953-54.	18.36	9.26	72.99

(xxxv) **Finance to Industrial Societies.** Industrial co-operative banks have been started with the object of attracting the savings of industrial workers and pooling them for financing small-scale industries. This object is not fulfilled and the Bank had to draw financial accommodation from the State Co-operative Bank. They were sanctioned credits to the extent of Rs. 6 lakhs, of which the outstandings at the close of 1954 were Rs. 61,800. The following statement indicates the volume of finance

made available to industrial co-operatives and outstandings thereof during the period of three years ending 30th June 1954.

(Figures in lakhs)

Year.	Total Limits sanctioned.	Outastandings.
1951-52.	62.20	35.98
1952-53.	28.68	22.49
1953-54.	24.71	25.70

(xxxvi) **Loans due from societies in liquidation.** During the year 1953-54, 17 societies, with Bank's outstandings of Rs. 6.76 lakhs, were taken into liquidation. At the end of 1954, balance outstanding with 107 societies in liquidation was Rs. 12.26 lakhs, while the same at the beginning of the year was Rs. 6.73 lakhs. The outstandings with societies in liquidation showed a considerable rise because an amount of Rs. 4.20 lakhs was outstanding with the Malsiras Purchase and Sale Union, which was taken into liquidation during the year.

(xxxvii) **Overdues.** Out of the total outstandings under all types of advances of Rs. 572.76 lakhs including bills discounted, unauthorized overdues amounted to Rs. 67.47 lakhs. The following table indicates the position in respect of overdues from different types of institutions, and individuals.

(A) **Societies.**		**Amount Overdues.**	**Percentage to total dues.**
		(Rs. in lakhs.)	
Agricultural Credit and Multi-purpose Societies.	...	35.02	13.8
Non-agricultural Credit Societies.	...	1.51	6.5
Industrial Co-operatives.	...	12.83	50.2
Marketing Co-operatives.	...	2.78	17.3
Joint Farming Societies.	...	0.05	46.6
Other Societies including Land Mortgage Banks.	...	2.74	59.3
(B) **Individuals.**			
(1) Advances against Agricultural Produce.		7.54	24.6
(2) Advances against baluables.	...	1.26	32.2
(3) Agricultural advances.	...	2.69	66.6
(4) Other advances.	...	0.45	3.8

(xxxviii) **Authorised and unauthorised overdues and overdue interest and Estimated Doubtful Debts.** The following Statement indicates authorised and unauthorised overdues, overdue interest and doubtful debts during a period of three yers ending 30th June 1954 :

Particulars.	1951-52.	1952-53.	1953-54.
	(Figures in lakhs of Rupees)		
(1) Unauthorized arrears.	72.89	101.50	67.47
(2) Authorised arrears.	13.38	20.31	0.42
(3) Estimated Doubtful Debts.	6.31	11.00	12.26
(4) Overdue Interest.	1.72	2.88	3.19

Explanatory Note :—The amount of interest which is not recovered within six months of due date is treated as overdue interest but is provided for before arriving at the net profits of the Bank. The overdue arrears in respect of interest were mainly with forest labourers' societies and some of the marketing societies, and a few agricultural societies in parts of Nagar and Panch-Mahals Districts. Bad and doubtful debts are carefully assessed every year. There is adequate provision to cover the bad and doubtful debts.

(xxxix) **Distribution of Profits and Building up of Credit Stabilization Reserve.** The Bank may in a general meeting from time to time declare an annual dividend to be paid to the shareholders in proportion to the amounts paid upon their shares as also a bonus to be paid to the members or to the staff of the Bank. The Directors may declare half-yearly *ad interim* dividend also to be paid to the shareholders in proportion to the amounts paid upon their shares. Any dividend in excess of 3% per annum on the paid-up share capital subscribed by the State Government should be credited to a separate Fund styled as "Credit Stabilization Reserve". The Fund is owned by the Bank and managed by the Board and serves as an agricultural credit stabilising fund for the purpose of rendering assistance to the central financing agencies to be used, wherever necessary, for the efficient performance of functions relating to the provisions of agricultural credit by central financing agencies in the State and for meeting any sudden emergency or calaamity in consultation with the State Government.

(XL) **Income and Expenditure position of the Bank.** The total gross income for the year 1953-54 amounted to Rs. 24.39 lakhs as against Rs. 25.24 lakhs of the previous yer. The reduction in income was due to lower interest yield on investments and loans. The total management expenses were higher by Rs. 1.5 lakhs as against those of previous years on account of the revision of pay-scales and allowances that came into force during 1953-54. The following table indicates the management expenses and net profits of the Bank for a period of three years ending 30-6-1954 :—

Particulars.	1951-52.	1952-53.	1953-54.
	(Figures in Lakhs)		
(1) Establishment charges.	9.94	10.24	11.25
(2) Inspection charges.	3.15	3.49	3.49
(3) Contribution to Staff Provident Fund.	0.57	0.62	0.71
(4) Contingent Expenses.	4.43	4.30	4.62
(5) Directors' and Auditors' Fees.	0.30	0.32	0.33
	18.39	18.93	20.40
(6) Net Profits.	7.69	6.31	3.99
Total Gross Income....	26.08	25.24	24.39
Ratio of Expenses to Gross Income,..	70	75	83.6

Explanatory Note :—The ratio of expenses to gross income has steadily gone up which explains a sharp fall in net profits during 1953-54. Owing to the rise in the amounts locked up with societies in liquidation and larger provision for overdue interest as also owing to higher cost of borrowed funds there was a drop in net profit during the year 1954. The average borrowing rate for deposits and loans was higher by 0.13 per cent, while the net cost of borrowed funds including management expenses was higher by 0.31 per cent. The lending rate however remained unchanged. The lending rate to agricultural societies was 4½ per cent., i.e., 1 per cent higher than the Bank rate, under the Integrated System Agricultural Finance, irrespective of the cost of raising funds. With the higher cost of administriation,

the net income of the Bank is not likely to show any appreciable improvement, since the rate of interest on lendings is not flexible. "In the case of co-operative banks the number of loan or deposit transactions is very large, though the sums involved in each transaction are small. Consequently, the cost of handling the transactions as well as their supervision is very much higher than that of commercial banks. This is more so in the case of the State Co-operative Bank, because its operations are widely extended through scattered and ununiform units through which agricultural credit is administered. On the other hand, the interest rate on agricultural lendings has been given a ceiling. In the case of larger Indian scheduled banks the ratios of establishment expenses and interest paid on deposits, gross earnings worked out at 42 and 27 per cent respectively in 1953, whereas in the case of the State Co-operative Bank, these stood at 39 and 35 per cent. It cannot be said that salaries and allowances paid to our employees are higher than those paid to their counterparts in commercial banks of our size and standing. In the circumstances, the scope of cutting down our establishment expenses is indeed small, unless it is suggested that some of the uneconomic branches should be closed down, thereby denying banking facilities to the rural areas and retarding the process of providing institutional finance to creditworthy borrowers in this State. This question as well as questions relating to borrowing and lending rates are being examined by the Board".

(Extract from the Speech of the Chairman at the Annual General Meeting of the Shareholders in 1954).

Uneconomic Branches. Out of 69 Branches in 14 districts 35 branches were working at a loss, their total deficit amounting to Rs. 1.67 lakhs. Out of 35 branches, only 14 were eligible for Government subsidy to the extent of Rs. 42,700, as they had not completed three years of their existence. The whole question subsidies may have to be reviewed and taken up with Government.

Inspection of Affiliated Societies. There were 2969 credit and multi-purpose societies and other types of co-operative institutions borrowing from the Bank. The Bank employed 50 full-time Inspectors and 26 Agents-cum-Inspectors during the year. The detailed inspection of societies classed A or B is

made by the inspector every alternate year, while societies classed C or D are inspected every year. The Inspectors not only enquire into local applications, but also verify assets statements as well. In addition to the Inspectors attached to the Branches, there were 8 Senior Inspectors stationed generally one for each district. The Senior Inspectors supervise the working of the Branches, control the inspectorial staff and inspect the major societies in their charge and usually represent the Bank on the Managing Committees of District Federations such as Rural Development Boards, Industrial Associations or of major societies whenever their bye-laws provide for bank representation. The Inspectors of the Banks associate themselves with organizational activities and deliver lectures at training classes organized by Divisional Co-operative Boards.

Audit of the Bank and its Branches. The accounts of the Branches are audited quarterly by senior officers of the Bank specially appointed for the purpose. The Divisional Inspectors conduct the internal audit of the Branches in Satara and Gujarat Divisions. The audit is conducted as an internal check to correct account irregularities. Stocks which are pledged for advances to individuals are also checked at regular intervals by the Senior Inspectors and Branch Auditors. Once every year the accounts of the Bank are audited by a Firm of Chartered Accountants who are on the panel of Approved Auditors of the Co-operative Department, Bombay.

Administration. The Board of Directors appointed a Special Staff Sub-Committee consisting of five Directors for revising the rules and regulations governing the conditions of service and the general policy of administration. During the year 1953-54 the Sub-Committee revised the pay-scales and grades and the scale of allowances paid to employees of the Bank and introduced some regulations for retirement and payment of gratuity to retiring employees or the heirs of deceased employees. This Committee advises the Board and the Mananging Director on all matters concerning the administration of the staff. The strength of the staff at the Head Office and Branches was at the end of 1945, 528 excluding subordinate staff, of whom 88 were University Graduates, and 17 had Diploma in Co-operation or Certificate of the Insti-

tute of Bankers Examination. During the year 1954, 29 employees retired due to their age.

The affairs of the Bank were very ably managed by the doyen of Chairmen—Shri R. G. Sariaya and Honorary Managing Director Shri V. P. Varde.

Part II. The Bombay Co-operative Banks' Association, Bombay

The Bombay Banking Enquiry Committee, in paragraph 213 of their Report, observed :

"233. It is, however, necessary that with their increasing business and the extension of the field of their activity in different directions, central banks should be in touch with one another, should have a unified policy and should co-ordinate their work. The Provincial Bank is, as the apex bank for the Province, admirably suited to take the initiative in this work of co-ordination. We suggest that under the aegis of this Bank, a small committee containing a representative of the Co-operative Department, one of the Provincial Bank, three of central banks and one of urban banks should be appointed. The committee should look into all important matters, particularly the training of staff, their adequacy and efficiency, the borrowing and lending rates of the banks, mutual arrangements regarding exchange business, maintenance of fluid resources, inspection of central banks and divisional federations of urban banks and similar matters of common interest. It should be in a position to give expert banking advice to the various banks and see that is is followed".

In pursuance of this recommendation, the Bhansali-Mehta Report suggested the formation of a co-ordinating agency to provide unification in financial matters for central financing agencies, which may be in the form a Co-operative Banks' Association. The Report, while endorsing the recommendation of the Banking Inquiry_ Committee, further suggested the establishment of an auxiliary body with urban bank representatives in arriving at decisions regarding matters that related to urban banks. According to this Report, recommendation was made that the Board of the Association should consist of five elected and two nominated members, three to represent central banks, two to represent the Provincial Bank, one to be nominated by Government and one to be co-opted by the remaining members.

Out of the two represenetatives of the Provincial Bank, one should be the Chairman who should be ex-officio Chairman of the Board of Association. The auxiliary body representing urban banks should consist of five members, three to represent each linguistic division, one from Bombay and one to be co-opted. A person is eligible for election to the Board if he is a Chairman, or Vice-Chairman, President or Vice-President, Managing Director or Honorary Secretary of a central financing agency. A member of the Board should not have been defaulter of any co-operative society during a period of preceding five years, and the bank he represents should be in A or B class for the preceding three years. Similar qualification should exist in the case of a member of the auxiliary body. The expenditure of the Board should be met by contributions from financing agencies on an equitable basis supplemented by a subsidy from Government, if necessary. In accordance with these recommendations, a co-ordianating body designated as the Bombay Co-operative Banks' Association, (an unregistered body) was started with the following objectives-

(1) To co-ordinate the work of central and urban banks in the Province of Bombay and to promote uniformity in the banking practice.

(2) To arrange, if necessary, for inspection of member-banks not served by an Audit Federation.

(3) To keep in touch with the Agricultural Credit Department of the Reserve Bank of India, Money market, Security market and to issue periodical bulletins to member-banks.

(4) To look into all important matters such as the borrowing and lending rates of banks, mutual arrangements regarding inland exchange business, maintenance of adequate fluid resources, training of the staff of member-banks in consultation with the Bombay Provincial Co-operative Institute.

The formation of this Association has served to bring about a greater unity and cohesion among the co-operative banks in the Province. The Association has, through its Executive Committee concerned itself with the important questions concerning banks, banking and allied subjects. It has been also giving useful advice to the banks and the Registrar has also been consulting it on a number of important questions and seeking its advice on a number

of importanct matters of policy. There are at present 27 persons on the Board of Representatives of Central Financing Agencies for the year 1955-56, while members of the Board of Representatives of Urban Banks for the biennial period of 1954-55 and 1955-56 numbered fifteen. The Association is now a registered body under the Bombay Co-operative Societies Act of 1925. The following is the scale of fees payable annually by member-banks:—

Working Capital		Scale of Fees
Below 1 lakh.	...	Rs. 20
Over 1 lakh up to 3 lakhs	...	Rs. 35
Over 3 lakhs up to 5 lakhs.	...	Rs. 50
Over 5 lakhs up to 7 lakhs.	...	Rs. 75
Over 7 lakhs up to 10 lakhs.	...	Rs. 1000
Rs. 10 to 25 lakhs.	...	Rs. 150
Rs. 25 lakhs up to 50 lakhs.	...	Rs. 200
Over Rs. 60 lakhs.	...	Rs. 300

The following is the Balance-sheet of the Association showing its latest financial position.

Balance-Sheet as on 30th September, 1956

Assets.	Rs.	Liabilities.	Rs.
Cash on hand.	...	Sundry Creditors.	221
Cash with Bombay State Co-operative Bank	1322	Contributions received in advance.	320
Investments at Cost:		Surplus.	55,183
(1) Government Securities.	16140		
(2) 4% percent Debentures of Bombay Municipal Corporation, 1955-67.	31890		
Fixed Deposit with the Bombay State Co-operative Bank.	15000		
Contributions receivable from Member-Banks.	...		
Furniture & Fixtures.	1372		
Total Rs.	55,724	Total Rs.	55,724

CHAPTER IX

Appendix No. 1

— Relevant provisions of the Reserve Bank of India Act relating to the Supply of Credits to State Co-operative Banks.

A. **Short-term Accommodation :**

(1) **Bonafide Commercial or Trade Transactions : 17 (2) (a) :**

" The purchase, sale and rediscount of bills of exchange and promissory notes, drawn on and payable in India and arising out of bonafide commercial or trade transactions bearing two or more good signatures, one of which shall be that of a scheduled bank or a State Co-operative Bank and maturing within ninety days from the date of such purchase or rediscount, exclusive of days of grace. "

(This section has so far been used to finance yarn business of State Handloom Weavers' Societies only).

(2) **Seasonal agricultural operations or marketing of crops : 17 (2) (b) :**

" The purchase, sale and rediscount of bills of exchange and promissory notes, drawn and payable in India and bearing two or more good singnatures, one of which shall be that of a scheduled bank or a State Co-operative Bank and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within fifteen months from the date of such purchase or rediscount, exclusive of days of grace. "

Explanation :—For the purposes of this sub-clause,

(i) the experssion " agricultural operations " includes animal husbandry and allied activities jointly undertaken with agricultural operations;

(ii) " Crops " include products of agricultural operations :

(iii) the expression " marketing of crops " includes the processing of crops prior to marketing by agricultural producers or any organisation of such producers ."

(3) **Production and marketing activities of cottage and small scale industries :**

17 (2) (bb) :

" The purchase, sale and rediscount of bills of exchange and promissory notes drawn and payable in India and bearing two or more good signatures, one of which shall be that of a State Co-operative Bank or a State Financial Corporation, and drawn or issued for the purpose of financing the production or marketing activities of cottage and small scale industries approved by the Bank and maturing within twelve months from the date of such purchase or rediscount, exclusive of days of grace; provided that the payment of the principal and interest of such bills of exchange or promissory notes is fully guaranteed by the State Government ".

(The only cottage industry approved so far under this Section is handloom weaving).

The above sections enable the Reserve Bank to *purchase, sell* or *rediscount* the bills specified in them. However, the section under which borrowings are actually made is 17 (4) (c) which authorises the Reserve Bank to *advance loans* on the security of the above bills. Section 17 (4) (c) reads as follows :

17 (4) (c) :

" The making to local authorities, scheduled banks, State Co-operative Banks and State Financial Corporations established under the State Financial Corporations Act, 1951, of loans and advances, repayable on demand or on the expiry of fixed periods not exceeding ninety days, against the security of such bills of exchange and promissory notes as are eligible for purchase or rediscount by the bank or as are fully guaranteed as to the repayment of the principal and payment of interest by a State Government '.

The following points are to be noted in this Section :

(i) It may be seen that the above Section provides for Government guarantee in case of those states where the Co-operative Banks cannot provide the two good signatures required for bills under Section 17 (2) (b).

(ii) Even though this Section authorises the issue of demand loans only, loans on the security of bills under Section17 (2) (b) and 17 (2) (bb) are allowed to run for the period of one year.

(4) General Purposes :

Section 17 (4) (a) :

" The making...of loans and advances repayable on demand against the security of stocks, funds and securities other than immoveable property in which a trustee is authorized to invest trust money by any Act of Parliament of the United Kingdom or by any law for the time being in force in India. "

However, if the loans are to be utilised for financing seasonal agricultural operations or marketing of crops, the loans are allowed to run for a period of one year and the concessional rate of interest will apply.

(5) Finance on the security of document of title to goods : 17 (4) (d) :

" The making......of loans and advances repayable on demand against the security of Promissory notes of any scheduled bank or State Co-operative Bank, supported by documents of title to goods such documents having been transferred, assigned, or pledged to any such bank as security for a loan or advance made for bonafide commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or the marketing of crops ".

This section has remained inoperative so far in the absence of any licensed warehouses which can issue negotiable warehouse receipts eligible under this section.

(Rs. in lakhs)

	1955-56		1956-57		1957-58 (upto 3-1-58	
	Limits sanctioned	Amount drawn.	Limits sanctioned	Amount drawn.	Limits sanctioned	Amount drawn.
Concessional Finance 17 (2) (b) read with 17 (4) (c) and 17 (4) (a) ...	2963.50	2561.09	3525.00	3481.22	4393.15	2579.77
Finance for non-agricultural Purposes at bank rate (17) (2) (a) and 17 (4) (a) ...	30.00	44.30	35.00	65.75	15.00	156.70
Finance under 17 (2) (b) read with 4 (c) at bank rate. ...	...	...	30.00	30.00	300.00	69.00
Finance under 77 (2) (bb) read with 17 (4) (c) from 1-4-1957 to 3-1-1958	...	...	...	...	94.53	13.00

(B) **Medium-term Loans :**

46 A (2) (b) :

" The bank shall establish and maintain a Fund to be known as the National Agricultural Credit (Long-term Operations) Fund..........

(2) The amount in the said Fund shall be applied by the Bank only to the following objects, namely :—

(a) ....

(b) " the making to State Co-operative Banks of loans and advances, repayable on the expiry of fixed periods not being less than fifteen months and not exceeding five years from the date of making such loan or advance, against such securities as may be specified in this behalf by the Bank and such loans and advances may be made for agricultural purposes or for such other purposes connected with the agricultural activities as the Central Board may, from time to time, by regulation or otherwise, determine:

Provided that such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest by the State Government. "

The actual advances authorised under this section are however made under Section 17 (4A) which reads as under :

17 (4A) :

" The making of loans and advances out of the National Agricultural Credit (Long-Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund established under Section 46A and Section 46B respectively, for the purposes specified in the said sections. "

The operations under this head are :

(Rs. in lakhs)

		Amount sanctioned.	Amount drawn.	Amount out-standing.
1955-56	...	139.67	89.79	98.82
1956-57	...	167.00	106.11	158.22
1957-58 (up to 3-1-58)		375.00	113.66	247.06

(C) **Long-term Loans :**

(1) **Loans to State Governments for Share Capital contribution to co-operative credit institutions :**

46A (2) (a) :

The amount in the Fund (Long-term Operations Fund) shall be applied by the bank to.........

(a) " the making of loans to State Governments for subscribing directly or indirectly to the share capital of a co-operative credit society and repayable on the expiry of fixed periods not exceeding twenty years from the date of making such loans or advance; "

The actual advances under this head also are made under Section 17 (4A).

The operations under this head is as follows :

(Rs. in lakhs)

	Amount sanctioned	Amount drawn	Amount out-standing
1956-57.	289.70	160.45	160.45
1957-58(up to 31-12-57).	305.99	51.40	211.85

(2) Other long-term purposes for which the Long-term Operations Fund can be utilised are (a) for the granting of long-term loans to land mortgage banks and (b) purchase of debentures of central land mortgage banks. The Fund has *not yet* been utilized for these two purposes. It is, however, proposed to use it for purchase of special *rural debentures* proposed to be issued by certain central land mortgage banks.

(**D**) **Purchase of debentures of Central Land Mortgage Banks:**

This is done under Section 17 (8) which enables the bank to undertake " the purchase and sale of securities of the Central Government or a State Government or any maturity or of such securities of a local authority as may be speified in this behalf of the Central Government on the recommendation of the Central Board ".

The extent to which such purchases of debentures of Central Land Mortgage Banks are made at present is 20% of the issue or the unsubscribed portion of the issue, whichever is smaller.

Such purchases of debentures made during the last three years are:—

(Rs. in lakhs)

1955-56.	9.50
1956-57.	1.50
1957-58. (upto 31-12-57)	12.94

OPERATIONS OF STATE CO-OPERATIVE BANKS

State	No. of Banks 1952-3	No. of Banks 1953-4	Membership: Individuals 1952-3	Membership: Individuals 1953-4
Andhra	—	1	—	—
Assam	1	1	594	903
Bihar	1	1	49	51
Bombay	1	1	4,181	4,268
Madhya Pradesh	1	1	1,535	1,610
Madras	1	1	160	157
Orissa	1	1	105	105
Punjab	1	1	—	—
Uttar Pradesh	1	1	236	231
West Bengal	1	1	—	—
Hyderabad	1	1	931	922
Madhya Bharat	—	1	—	7
Mysore	1	1	197	185
PEPSU	1	1	10	18
Rajasthan	—	1	—	1
Saurashtra	1	1	62	64
Travancore-Cochin	—	1	—	1,772
Ajmer	1	1	450	481
Coorg	1	1	829	694
Delhi	1	1	80	80
Himachal Pradesh	—	1	—	36
Vindhya Pradesh	1	1	28	28
Total	17	22	9,447	11,613

Figures for 1953-54 relate to the residuary State.

N.B.—Figures taken from the Review of the Co-operative

OPERATIONS OF STATE CO-OPERATIVE BANKS—I

(Amounts in lakhs of rupees)

Banks & Societies		Owned Funds		Total Deposits		Other Borrowings	
1952-3	1953-4	1952-3	1953-4	1952-3	1953-4	1952-3	1953-4
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
—	15	—	34.36	—	67.41	—	274.60
455	470	2.00	16.92	32.41	65.24	45.62	40.99
105	111	22.04	22.05	81.47	79.79	45.19	45.72
5,524	5,748	114.33	117.69	925.27	898,12	123.93	130.90
2,694	5,141	28.91	33.27	242.74	248.78	55.98	96.80
31	16	78.40	50.41	464.55	389.58	421.15	152.73
54	54	7.42	7.67	20.53	23.92	24.60	33.44
1,906	2,028	11.52	26.86	35.09	46.29	16.65	48.83
988	1,042	55.54	59.18	276.18	280.38	53.35	66.90
96	100	108.64	109.50	160.09	161.59	147.73	100.99
231	234	20.61	24.00	68.88	75.78	14.57	25.00
—	39	—	1.50	—	1.27	—	—
2152	2,167	14.93	15.36	53.39	45.55	—	—
351	431	3.78	3.99	1.14	5.43	—	6.00
—	502	—	5.43	—	0.36	—	—
130	268	6.02	6.84	5.82	20.53	4.34	7.47
—	1,258	—	8.02	—	21.47	—	—
401	414	5.60	5.87	12.51	13.20	1.89	0.33
359	376	3.05	3.19	11.71	13.81	—	—
565	612	5.79	6.25	27.89	26.91	—	—
—	71	—	1.20	—	4.28	—	2.45
127	173	0.38	1.47	0.24	0.23	—	—
16,169	21,270	488.96	561.03	561.03	2,419,91	2,489.92	1,033.15

Movement for 1952-54 published by the Reserve Bank of India.

OPERATIONS OF STATE CO-OPERATIVE BANKS

(Amounts in lakhs of Rupees)

State	Working Capital 1952-3	Working Capital 1953-4	Total Investment 1952-3	Total Investment 1953-4
	Rs.	Rs.	Rs.	Rs.
Andhra	—	376.37	—	24.26
Assam	80.03	123.16	3.61	12.95
Bihar	148.70	147.56	59.08	66.53
Bombay	1,163.53	1,146.71	556.98	511.45
Madhya Pradesh	327.64	378.85	155.37	102.15
Madras	964.11	592.72	243.46	232.01
Orissa	52.55	65.03	8.55	11.44
Punjab	63.26	121.98	33.51	53.21
Uttar Pradesh	385.07	406.46	79.65	79.61
West Bengal	416.46	372.09	99.06	102.03
Hyderabad	104.06	124.78	49.13	49.43
Madhya Bharat	—	2.77	—	2.24
Mysore	68.32	60.91	8.71	18.64
PEPSU	4.92	15.41	—	1.97
Rajasthan	—	5.79	—	0.19
Saurashtra	16.18	34.84	4.73	2.16
Travancore-Cochin	—	29.49	—	5.87
Ajmer	19.99	19.39	9.29	9.85
Coorg	14.76	17.00	4.45	3.48
Delhi	33.67	33.16	20.53	15.25
Himachal Pradesh	—	7.93	—	0.99
Vindhya Pradesh	0.62	7.70	—	—
Total	3,863.87	4,084.10	1,336.11	1,305.71

N. B.—Figures taken from the Review of Co-operative Movement

Appendix (*B*)

OPERATIONS OF STATE CO-OPERATIVE BANKS—II

(Amounts in lakhs of rupees)

Fresh advances made during the year				Recoveries during the year.			
Individuals.		Banks & Societies		Individuals.		Banks & Societies	
1952-3	1953-4	1952-3	1953-4	1952-3	1953-4	1952-3	1953-4
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
—	0.15	—	1,094.30	—	0.13	—	746.32
24.79	124.66	320.16	66.88	21.92	96.19	317.81	62.63
0.15	0.92	21.22	31.31	0.29	0.93	14.90	23.26
57.81	320.80	1,257.15	1,496.43	82.51	302.68	1,371.59	1,462.33
420.43	400.30	218.81	215.42	426.34	384.02	187.54	158.30
17.60	23.18	871.49	563.04	28.26	25.71	866.61	881.20
0.40	0.19	53.81	55.07	0.35	0.19	60.96	47.43
—	0.04	9.63	51.62	—	0.01	13.64	10.19
36.97	39.17	455.30	428.28	35.92	36.65	416.88	431.59
0.44	0.58	76.85	81.40	1.16	0.33	62.27	74.64
13.31	5.89	41.78	38.73	17.11	7.80	49.68	24.71
—	—	—	—	—	—	—	—
0.83	2.06	50.30	38.04	0.79	1.08	55.72	36.10
—	—	2.92	7.12	—	—	—	4.08
—	—	—	p.25	—	—	—	—
—	—	9.62	31.40	—	—	0.92	23.22
—	0.25	—	1.11	—	0.35	—	1.24
0.74	0.92	13.41	7.84	0.77	0.99	13.92	8.40
0.51	0.46	8.38	14.83	0.50	0.56	8.29	9.46
0.27	0.56	7.80	22.31	0.37	0.45	7.80	17.85
—	0.33	—	10.67	—	0.09	—	10.29
—	—	0.44	0.66	—	—	0.13	0.44
574.25	920.46	3,419.07	4,256.71	616.29	858.16	3,448.66	4033.68

in India 1952-54 published by the Reserve Bank of India.

OPERATIONS OF STATE CO-OPERATIVE BANKS

(Amounts in lakhs of Rupees)

State	Outstanding at the end of the year: Individuals 1952-3	Individuals 1953-4	Banks & Societies 1952-3	Banks & Societies 1953-4
	Rs.	Rs.	Rs.	Rs.
Andhra	—	0.01	—	347.98
Assam	11.36	54.47	35.94	25.34
Bihar	0.16	0.15	25.83	33.88
Bombay	39.74	57.86	470.36	504.45
Madhya Pradesh	36.87	53.15	106.34	163.46
Madras	10.70	8.66	703.83	334.07
Orissa	0.22	0.22	40.93	48.57
Punjab	—	0.02	27.05	68.49
Uttar Pradesh	7.92	10.44	128.54	159.44
West Bengal	0.48	0.74	213.14	219.90
Hyderabad	23.37	21.46	32.70	46.72
Madhya Bharat	—	—	—	—
Mysore	3.32	3.32	34.66	34.62
PEPSU	—	—	2.92	5.96
Rajasthan	—	—	—	0.25
Saurashtra	—	—	8.82	17.00
Travancore-Cochin	—	0.94	—	4.35
Ajmer	0.46	0.39	9.25	8.69
Coorg	0.73	0.63	8.43	13.80
Delhi	0.13	0.24	11.10	15.56
Himachal Pradesh	—	0.24	—	3.15
Vindhya Pradesh	—	—	0.47	0.69
Total	135.46	212.94	1,860.31	2,056.37

N.B. **Figures taken from the Review of the Co-operative**

OPERATIONS OF STATE CO-OPERATIVE BANKS - III

(Amounts in lakhs of rupees)

Overdues 1952-3	Overdues 1953-4	Total Bad and Doubtful Debts 1952-3	Total Bad and Doubtful Debts 1953-4	Profit (+) or Loss (—) 1952-3	Profit (+) or Loss (—) 1953-4
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
—	16.87	—	—	—	+2.00
—	6.40	—	0.53	+0.66	+1.88
14.35	16.04	—	—	—	5.70
86.48	67.89	11.09	12.26	+6.31	+4.00
11.48	6.05	0.55	0.55	+0.69	+1.46
19.53	—	1.25	—	+5.54	+3.02
0.03	0.65	—	—	+0.70	+0.76
17.12	4.90	—	—	+0.42	+0.75
11.06	5.61	0.55	—	+3.15	+4.13
138.46	152.05	—	152.05	+4.93	—0.19
15.37	—	0.83	—	0.51	+0.01
—	—	—	—	—	+0.02
11.72	13.85	—	—	+0.46	+0.91
—	—	—	—	+0.0.1	+0.09
—	—	—	—	—	+0.01
—	0.20	—	—	—0.22	—0.01
—	2.71	—	—	—	+0.01
1.56	2.25	0.73	1.64	+0.18	+0.15
0.06	0.57	—	—	+0.11	+0.21
1.14	4.10	—	—	+0.58	+0.78
—	—	—	—	—	—00.01
0.08	—	0.08	—	+0.00	+0.03
328.44	297.14	15.08	167.03	+24.25	+25.9
				— 0.22	—0.21

Movement in India for 1952-54 published by the Reserve Bank of India.

CHAPTER X

INTEGRATED SCHEME OF AGRICULTURAL CREDIT TO CREDIT WORTHY AGRICULTURISTS IN THE BOMBAY STATE.

The Government of Bombay appointed in February 1947, a Committee styled " the Agricultural Credit Organization Committee" under the chairmanship of Sir Manilal Nanavati to examine the question whether it was necessary to set up a State-aided and State-controlled Agricultural Credit Corporation recommended by the Gadgil Committee appointed by the Government of India. After studying the working and examining the position of central financing agencies in the Province, the Committee came to the conclusion that the existing co-operative agencies could, with suitable reorganization and State help, carry out the functions of the Agricultural Credit Corporation and hence there was no need for setting up the latter. The Government of Bombay, accepting the recommendations of the Nanavati Committee, suggested to the central financing agencies, including the State Co-operative Bank, to remodel their structure and reorganise their working, so that they could play the new role in the new scheme of integrated agricultural credit. In pursuance of the suggestion of the Provincial Government, The Bombay Provincial Co-operative Bank reconstructed its Board of Directors during the year 1950. The Directorate was enlarged considerably and consisted of thirty-three members at the end of 1950-51. This enlargement of the Board gave a more representative character to the Board of Directors. The composition of the Board has already been referred to in the previous chapter. The Boards of Directors of other central financing agencies in the province have also been reorganized, so as to have better representation of agricultural interests on their Boards. They have been so organized as to have at least half the number of Directors to represent the co-operative institutions affiliated to them. The aim in remodelling the Board of Directors of the Bombay Provincial Co-operative Bank has been to provide representation to all central financing agencies and other co-operative interests in order to obtain a closely-knit

organization and to build up an integrated system of co-operative finance to primaries and institutional credit to all creditworthy individual agricultural borrowers in the Province. The State Government on its part agreed subject to certain conditions to contribute the share capital of the Bank and has been associated with its administration and policies through its represertatives on the Board of Directors.

2, **Implications of Institutional System of Credit**. How the institutional system of credit is different from the traditional or orthodox system of co-operative finance is very well brought out in the following passage found in the Report of the Working of Community Projects (1954) by the Director of the Programme Evaluation Organization. "Even in the so called co-operatively developed States, the percentage of families, even agricultural families reached by the co-operative movement is yet nowhere near the objective of reaching all families. One of the obstacles in reaching this is said to be the presence among agriculturists of a large number of non-creditworthy farmers. For the most part this attitude is based on an inadequate appreciation of the implications of planned and integrated national credit. In the new context of providing through national agencies adequate credit for approved itoms of development one has to think not in terms of creditworthy members but of creditworthy uses. So long as the items for which credit is given are productive and, therefore, self-liquidating, the provision of credit under suitable safeguards need not be treated as unsound. A fresh approach to co-operation is indicated in view ol the element of social policy introduced by national schemes of planned development. In view of the basic importance of co-operation in schemes of community development and national extension so emphatically stated in official utterances and of the relatively small measure of factual achievement, this whole subject deserves a fresh comprehensive consideration".

If credit is to be an instrument of progress, the implications of providing an institutional credit system will have to be carefully grasped. There is a general belief amongst co-operative workers and agricultural borrowers that the finance to be provided should be on the same scale and the same basis, as is

being provided by private money-lenders. It should be remembered however, that the very aim of Co-operative finance and the basis on which it is given are different from those of the money-lender. Co-operatives have no desire to acquire lands unlike the money-lender, but they are there to help in the efficient running of agriculture. Consequently, credit extended by co-operatives is based not so much on a borrower's landed property as the efficiency of his agricultural industry. This credit is linked with the raising of crops and productive capacity of the agricultural borrower and not merely with the security offered, which is of secondary importance. Institutional credit is provided to a creditworthy agriculturist and a creditworthy agriculturist is one whose vocation is normally a remunerative business, so that he is able to retire his borrowings from the proceeds of the crops raised by him, that is to say, a progressive and industrious agriculturist whose economy is not normally a deficit one. Lastly, institutional credit insists upon a certain amount of discipline--conformity to a certain procedure and loyalty to institutions. These conditions are implicit in any system of institutional credit, if it is to be of lasting benefit to the borrower. and to help him in increasing his output, and standard of living. The objective of the institutional credit system can be secured only if the lender , i. e., the primary credit society, and the borrowers appreciate and understand the implications of the integrated system of credit and the Government agencies, more particularly the Co-operative Department, and different agencies in the integrated structure take the financing agencies into confidence in regulating the flow of capital for productive purposes. In the opinion of the International Conference of Agricultural Co-operative Credit held at Berkely sometime ago, the aim of agricultural credit was set forth in the following terms:—

"Credit to be an instrument of progress by getting needed capital to those who can make good use of it, requires suitable background conditions, in the absence of which it may be as sterile as seeds thrown on the dry sands of the desert. After all credit is a good thing only if so productively used that it provides a surplus after interest and principal are paid, otherwise it decreases the farmers ' equity or it borders on charity which though necessary

at certain times and places, should not be confused as an instrument of agricultural progress."

3. **Crop Loan System.** Regarding the procedure and method to be adopted to make the crop loan system a success, the opinion of Prof. D. R. Gadgil may be quoted with profit. "The whole idea of the crop loan is based on its being repaid immediately on the disposal of the crop on which the loan is secured. It is in these terms that the Bank has raised Reserve Bank finance against agricultural paper and at least for observing properly the obligations towards the Reserve Bank, the central financing agencies should try to enforce the crop loan system in its proper sense. This involves exact ascertainment of crop areas, fixation of per acre limit for each crop for a region and insistence on the retirement of each separate set of crop loan in relation to the period of maturity and disposal of particular crops. It would be no exaggeration to say that comparatively highly placed officials of the Bank, of the Co-operative Department and of the Central Banks had themselves no complete idea of the implications and the operation of the crop loan system. However to register any general progress in the working of the co-operative credit fabric, earnest efforts must be made at enforcing and operating a proper crop loan system. One of the major objectives of the new policy was to simplify granting of loans and to reduce the time required for giving them. With this aim in view, it was understood that when crop acreages were fully ascertained, there should be no attempt at cutting down arbitrarily the amount of the loan to which a member was entitled on the per acre loan limit fixed for particular regions. Also it was decided that individual limits may be fixed afresh by the higher authorities only once in three years and that ordinarily the local agents should disburse the amount within the limit to which a member was entitled in relation to his actual crop area. No feature of this avowed system was yet in evidence anywhere. The arbitary cutting down of loan amounts at all the stages persisted,and there had been no measure of devolution and neither simplicity in procedure nor saving in time had yet been obtained." Prof. Gadgil stated that he was not dissatisfied with the rate of progress achieved so far. From a study of the total amount of money lent out by the central financing agencies in the past three or four years, one could reason-

ably assume that the rate of progress could not have been safely larger. But he was more concerned with the system and method of finance which was adopted by the Board in their policy statement, and which was a clear departure from the old system prevailing. The present system of agricultural finance was so unmethodical and illogical in many spheres that a new crop loan system had to be adopted. Adequate and full finance, promptness of recovery on the maturity of the crops and feeling of trust and confidence were some of the essential features of the crop loan system and in his opinion advancing against repayment as per old system was not really a credit system. What should be depended upon was the scope and nature of farmer's productive activity. When this was so, it should both expand and contract and that could not be done until they got away from the system of financing against repayments. Broadly speaking, if farmers were educated and a sense of confidence instilled in them about the working of this particular system, there was not the slightest doubt that the system could be put through, though there may be some practical difficulties. The central financing agencies had not suggested any retirement dates for different crop loan operations which was one of the salient features of the crop loan system. While congratulating the central financing agencies and in particular the Apex Bank for having made available considerable funds to the agriculturists and while some of the central financing agencies had worked to approximations in this system and their experience would be valuable in order to justify the financial assistance from the State Government and the Reserve Bank of India, the central financing agencies must work in unison, feeling that they were wedded to this system and the Co-operative Department was in duty bound to work in this particular system. The whole theory of the crop loan system would just collapse if they did not make a bold approach to the problem facing them.

"However, while the co-operatives had not yet succeeded in eliminating the other parallel credit agencies and while the maintenance of accounts and efficiency of management were of a low order and while there were no strong marketing organizations, which were conducive to the evolution of a crop loan system, the implementation of the system uniformly in all areas was rather difficult and

generally it would be beyond the capacity of any central financing agency or even the Apex Bank to try this system on a large scale in the prevailing circumstances. It was, therefore, agreed that the system on the lines indicated by Prof. Gadgil should be worked in selected areas for certain types of crops, where a definite attempt should be made to link up credit with marketing. The greater the extent of the cash crops the more the proximity of crop loan system and the basis of finance on a uniform level and therefore the system could be worked in areas where large finance was provided through co-operatives for financing cash crops like sugarcane, potato, cotton and groundnut."

4. With the changes that came over the country in the political, social and economic spheres, the relations between private money-lenders and agricultural borrowers underwent changes, and the volume of debt became burdensome on the agricultural industry. Government had, therefore, to resort to legislation to regulate moneylending and to adjust the old debts of the agriculturists to their repaying capacity. With the introduction of these legislative enactments there was a shrinkage in the sources of credit available to the agriculrurist-borrowers and the need for an alternative agency to provide agricultural finance to creditworthy borrowers was accentuated. The choice, however, lay between the Government agency and the institutional system. The Government of Bombay and the Co-operative Movement decided to evolve a system of institutional creditof the co-operative type. The responsibility for providing agricultural finance to all the creditworthy borrowers was assumed by the Provincial Bank and its affiliated central financing agencies and other co-operative organizations. The Board of Directors of the Bombay State Co-operative Bank drafted a scheme indicating the proceedure for assessing the credit requirements of creditworthy borrowers and for conducting their credit operations.

(1) **Procedure for the fixation and operation of credits to be allowed to creditworthy borrowers.** The procedure that is detailed below is meant to secure a fairly uniform system of integrated finance in relation to the general obligation on the co-operative societies and the central financing agencies to provide

agricultural and marketing credit to creditworthy agriculturists. It may be noted that it is not proposed to restrict the financial accommodation which any central financing agency may at present be providing to its affiliated societies.

(A) **Basis of Agricultural Finance.**

(a) **Eligibility for Agricultural Finance :** Persons owning lands of their own or who cultivate agricultural lands either as owners or tenants or both including restricted tenure lands, lands in possessory mortgage and lands given for maintenance and who are entitled to the produce or proceeds thereof shall be eligible for agricultural finance.

(There need not be any attempt to define or restrict the limit of the size of the holding.)

(b) **Types of Credit :** (1) The finance required for agricultural operations of the year and repayable from the proceeds of the crops of the year; and

(2) Intermediate loans for purchase of bullocks, small implements, petty repairs to wells or bunds, etc. repayable within three years. Loans for periods exceeding 3 years but not exceeding 5 years may be advanced by central financing agencies at their discretion.

Security for crop loans : For type (1), the society will have a charge on the crops as security, for the loans in addition to the charge created by the borrower on his lands under Sec. 24-AA. The basis of finance will depend on the acreage of different crops cultivated by a borrower and the scale of finance per acre of the different crops for seasonal expenditure will be determined by the financing agency in different tracts in consultation with the representatives of societies and this scale shall be announced for the information of the borrowers.

Intermediate-term loans : In addition to the crop finance required for agricultural operations of the year under clause (b) (1), intermediate-term loans for purposes other than long-term requirements such as land improvement or sinking of wells or pur-

chase of machinery, will be made generally for purposes stated in clause (b) (2).

Security for Intermediate-term loans : The intermediate-term loans shall be advanced only against real assets which are declared by the borrower under Sec. 24-AA or are secured by sureties owning lands and creating a charge on their lands in respect of their surety liability in addition to the liability of their own debts. The intermediate loans shall not exceed one-sixth of the value of his own assets, if any, plus the free assets of the surety, if any.

Note : For determining the basis of valuation, the present market value of lands and not the pre-war valuation be taken into consideration.

Limit for intermediate-term loans : The total limits for giving intermediate loans through the societies by a financing agency shall have to be restricted to one-sixth of the total assets of the members as a whole declared by members under Sec. 24-AA.

(c) The central financing agency need not place a maximum limit to borrowings by individuals. However, the central financing agency may assume powers by either provisions of the bye-laws of societies or a provision of re-endorsement of documents for proceeding against a defaulter for the loans which are advanced under its authority beyond the limits laid down in the bye-laws of the society, in case of any default by a borrower.

A procedure for the expeditious disposal of applications by societies for certification of debts as arrears of land revenue should be prescribed by the Registrar in order to ensure prompt action against defaulters.

(B) **Members of C. F. A.**

Persons who are not admitted as members by societies or persons who cannot become members of a society may be financed by a central financing agency both for agricultural operations and intermediate-term loans on the basis outlined above for members of societies. However, such persons as have

resigned from a local agricultural society in order to get finance from the central financing agency shall not be eligible for getting direct financial accommodation from the Central Financing Agency of the area.

(C) Procedure for Fixing Agricultural Credit.

Assets Statement : The assets statement should be made out by the Society in the form prepared by the Provincial Bank and should contain information about the lands owned by the members or lands held on lease showing separately the survey numbers charged under Sec. 24-AA.

Normal Credit Statements : The credit statements should be prepared by the Society in the form prepared by the Provincial Bank uniformly, with such variation as may be suitable for different tracts. The credit statements should be prepared once in three years and should show the limits ordinarily required for intermediate-term loans for each member. The credit statements shall be got scrutinized by the central financing agencies at their discretion by their own staff or through the agency of supervisors and sanctioned by the central financing agencies. The central financing agencies should fix limits for the societies on the basis of the total limits sanctioned for the members. Powers should be delegated to the agents of branches of the financing agencies to sanction loans within these limits. Individual limits in excess of the limit fixed in the bye-laws of the societies are to be approved by the central financing agencies.

Scrutiny of N. C. Statements : In order to save time and duplication the scrutiny by both the staff of the Supervising Unons, and the staff of the central financing agencies should be avoided. In order to ensure a properly integrated system of finance, the responsibility of fixing the agricultural credits and operating the limits sanctioned properly, should vest in the central financing agencies.

Administration of loans and inspection of loans should be entrusted to the Inspectors of the central financing agencies.

Matters of Policy of Agricultural Finance : In matters concerning policy of agricultural finance and the general working of the system the Co-operative Department should consult the Board of the Provincial Co-operative Bank Ltd., and suggestions regarding work in or requirements of a particular tract in this respect should be brought to the notice of the Provinical Bank.

(D) **Agricultural Finance in Backward and Underveloped Areas. Subsidies for Secretarial Expenses :** In areas which are backward and co-operatively underdeveloped, the areas of operation of societies are fairly extensive and the number of borrowers and the volume of business is comparatively limited. In such cases, the cost of operation of agricultural finance will be very considerable. Adequate subsidies for the working expenses of the societies should be made available even in excess of the scale which has been prescribed by the Registrar under his Circular letter No. ADM 634/11/28, dated 22nd November 1949, in order to enable the societies to undertake the function of financing the agriculturists in their areas of operation and the conditions on which such subsidy is made available, may have to be relaxed. It would be still more costly for the central financing agencies for making finance available to scattered borrowers in such areas. In cases of backward areas like the Bhil tract the Adivasi and the Konkan tracts, a certain amount of guarantee by Government for risks in the finance may also be made available to enable the central financing agencies to finance the agriculturists who are generally landless and where agricultural conditions are precarious. Further, these types of multi-purpose societies should be definitely linked up with a programme of development of the tracts and should not be organized as isolated units without reference to an overall development plan.

(E) **Purchase and Sale Unions and Agricultural Finance. Loan by Marketing Societies :** Agricultural finance by the purchase and sale unions and sale societies should be definitely discouraged, and should be diverted to central financing agencies or local societies, where it is at present undertaken. Any finance made by Purchase and Sale Unions and sale societies should be confined to marketing and processing operations.

ments and for obtaining declarations under Sec. 24-AA and (2) for undertaking enquiries into agricultural finance required by their individual members. This staff would be gradually absorbed as the volume of agricultural finance increases. The Provincial Bank should make arrangements for supervisory staff for co-ordinating the activities of the central financing agencies in respect of the agricultural finance and for the promotion of closer contacts and exchange of views between the central financing agencies and the apex institution.

(J) Action to be taken by Government and the Registrar for Implementing the Scheme.

In order to assist the early implementation of the integrated scheme of agricultural credit, the following procedural and policy changes will have to be brought about :—

(1) The bye-laws Nos. 3 and 56 of agricultural credit societies may have to be amended so as to enable the central financing agencies to effectively finance the societies and its members. The form of amendments of the bye-laws should be taken up with the Department.

(2) The Registrar should lay down a certain definite procedure to be followed by the Assistant Registrars in respect of all applications of certification of debts as recoverable as arrears of land revenue under Sec. 59 (b) in order to ensure a speedier process which is contemplated by this section, so as to minimise the delays in the grant of such certificates.

(3) The arrangements for the appointment of Special Recovery Officers at Government cost as suggested by the Nanavati Committee should be finalised by Government as early as possible, so that prompt action against persons evading repayments could be taken, to secure timely repayments of the agricultural loans. As recommended by the Nanavati Committee, Government should bear the entire cost of Special Recovery Staff. (This proposal was later negatived by Government.)

(4) The Government should be moved to revise their present policy of granting tagavi advances and other loans and subsidies

for agricultural operations on the lines suggested elsewhere.

(5) The Government should be moved to prescribe under the Co-operative Societies' Rules the form for declarations under Sec. 24 (A) (A) and procedure for their registration. (This was donelater).

(6) In matters concerning agricultural finance, the Registrar should consult the Board of the Provincial Bank for formulating policies to be pursued.

CHAPTER XI

LONG–TERM CREDIT

Co-operative Land Mortgage Banks

The Need for Long-Term Credit for Agriculutre. Like all other individuals the agriculturist also needs credit. The credit needs of the agriculturist are short-term, intermediate-term and long-term. Credit required for the raising for crops, for payment of wages and for purchase of feeding stuffs is styled as 'short-term credit'. Credit required for purchase of carts, implements and bullocks is called 'intermediate credit'. Credit needed for purchase of land and farm buildings, for permanent works of land improvenent, sinking of wells, installation of pumping sets and discharge of prior debts is designated as 'long-term credit'. A system of long-term credit to be really useful to the agriculturist must possess the following characteristics :—

(1) A low rate of interest.

(2) Possibility of retirement of debt, by a number of small annual payments fixed on the basis of repaying capacity of the borrower.

(3) Expansion of loanable capital to meet the growing demands.

The money-lender's credit does not obviously satisfy these requirements and is not, therefore, suitable for the provision of long-term rural credit. A distinct feature of rural economy in this country is the heavy load of debt of the agriculturist. In a previous chapter an attempt has been made to show how several measures have been adopted to fight this heavy load of debt, and how moneylender's legislations have been enacted in several States to put a curb on charging heavy rates of interest by the money-lenders. With the introduction of the co-operative movement it was thought that it would be in a position to provide both the long-term and short-term needs of the agriculturist. Credit societies were,

therefore, allowed to advance long-term loans along with short-term loans to the extent permitted by the Co-operative Department for each society or class of societies. Experience, however, soon demonstrated that the ordinary credit societies were entirely unsuitable to undertake long-term business. It may be noted that the primary societies depend for their resources on borrowings from central financing agencies which, in their turn, attract only short-term deposits. It is obviously unsound for credit societies to make long-term loans with short-term resources and wherever they did so, they invited trouble and landed themselves in difficulties, for mortgage banking has a technique of its own and primary credit societies are not in a position to assess the vaue of real estate correctly, nor to examine their titles nor are they in a position to meet outside obligations when borrowers fail to pay their debts. These disabilities of primary credit societies have underlined the need for establishing a separate co-operative agency for the dispensation of long-term credit. The first province where the earliest attempts were made, to set up special land mortgage institutions, was the Punjab, where the first land mortgage bank was started at Jhang in 1920. Madras followed next by organizing two banks of that type in 1925 and Bombay came next by establishing three banks in 1929. The movement gradually spread in these and other provinces during later years. The need for long-term finance to the agriculturist through a specialized institution having been established, what are the most suitable agencies that can provide it ? A State Bank for this purpose would be obviously unsuitable, as it would be nothing short of an extension of the tagavi system on an organized basis. No State can successfully tackle a banking enterprise of this nature, and that is why it is not attempted in any country. The interests of borrowers would stop short at obtaining loans and there would be no scope for developing self-help and capacity to organize among the agriculturists. Moreover, the management is also likely to be very expensive and this would really react on the cost of credit supplied by the banks if they are to run on a self-supporting basis. The joint-stock banks also, if started for this purpose would be equally unsuitablefor the same reason, 'particularly as their aim is to get as much profit as possible for their shareholders. In addition, it would not be possible for such banks

to raise the necessary long-term capital without Government assistance at least in the shape of guarantee of interest and as such guarantee presumes stricter control over the institution, co-operative banks are more sutiable for the purpose.

2. **Why the Co-operative Agency is more suitable?** In the first place, the co-operative agency is best suited for dispensation of long-term finance, as the control exercised under the Co-operative Societies Act is sufficiently effective for safeguarding the interests of Government. Secondly, past experience has shown that the management of co-operative banks is definitely cheaper, as honorary services are available and particularly the co-operative agency can secure the information about the assets and repaying capacity of the borrowers easily and cheaply. Thirdly, land mortgage credit can only be effective if it is given at the cheapest possible rate and in the case of Co-operative Societies there are severe restrictions on profiteering. Fourthly, the safeguards against the grant of inadequately secured finance can also be provided by the control of the Registrar over the banks, and fifthly, the borrowers will participate in the management and in profits of the banks earned after defraying the necessary expenses. This participation in the management will bring to the co-operative banks an intimate touch with the rural areas which would be sadly lacking in the case of any other type of institution, and lastly, in the case of co-operative land mortgage banks the short-term credit required by the borrower can be supplied by credit societies in the same area, so that requirements of the borrower both in respect of short-term and long-term needs will be supplied adequately by the co-operative organization.

3. **Structure of Land Mortgage Banks.** The necessity of starting a co-operative land mortgage bank having been established, it remains further to be seen whether the pattern should be either federal or unitary. The federal structure that originated in Germany has since been adopted by several countries of Europe. In India also, this pattern has been adopted in Provinces like Bombay and Madras. The primary untis form the base and they advance loans to farmers and for that purpose value their lands, examine the legal title to lands and take steps to recover the loans as they

fall due. In order to provide funds to primary units or to support or to regulate the bonds or debentures issued by local or primary associations, central institutions are established in most countries with State support. Because of their size and the status enjoyed by them, they are able to float debentures on favourable terms and help the local associations with funds thus raised. The unitary type is found in Japan and France where the central organization issues bonds and makes direct finance to the borrowers through its own branches, and agencies. The Agricultural Mortgage Corporation of Britain and the Canadian Farm Loan Board and the South African Land and Agricultural Bank belong to the unitary type of land mortgage institutions. The type that would be more suited to Indian needs would be the federal one. In the first place, farmers in India live in remote and inaccessible villages and require loans for discharge of prior debts or agricultural improvements. They would always prefer a land bank as near to them as is practicable. As the co-operative bank is constituted and operated by farmers, its area of operation has to be necessarily a limited one; due attention being had to administrative needs and proper personnel for management, business turnover etc. Branches and agencies of a centralized organization will not be able to command that local enthusiasm and support that is needed, and they are run in consequence by paid officials who are fond of routine work. At the same time it must be remembered, as experience has demonstrated, that a local bank cannot command the confidence of the outside investing public. Thus the local land banks will have to be federated into a central land mortgage bank which can command ample resources and have expert management. Still, however, differences in the types of structures of land mortgage banking in India are perceptably noticeable. In the first place, in the group of States consisting of Madras, Andhra, Bombay, Madhya Pradesh, Mysore, Ajmer, and Hyderabad, there is an apex Land Mortgage Bank at the top and the primary land mortgage banks form the base. Secondly, in some of the States like Orissa, Saurashtra and Travancore-Cochin, the structure consists only of a central or apex land mortgage bank dealing directly with individual agriculturists. There is also a third category of States, in which primary land mortgage banks alone exist without an apex institution at the top to

at a low rate of interest and this must ultimately depend on the measure of assistance which Government is prepared to give, the rigidity of valuation of properties mortgaged, the general credit and the resources of the institution issuing the debentures. Long-term capital, it may be noted, cannot be raised cheaply in the market without special assistance from Government, and it is necessary, therefore, that Government should come forward to guarantee both the principal and the interest of the debentures issued by a central land mortgage bank for a specified sum. Without such guarantee money cannot be raised to a large extent, and if it could be raised at all, it will be only at an unremunerative rate of interest. As observed by the Royal Commission on Agriculture in India, it is extremely unlikely that the guarantee of interest will ever involve Government in loss, while the sinking funds are increasing at a rate which should prevent the debentures from falling much below par for any considerable period. It is improbable that such issues will in any degree restrict the market for Government loans, so that the State is able to inspire confidence in an important movement without any loss or embarrassment to itself.

5. **Beginnings of Co-operative Land Mortgage Movement in India.** To the Punjab goes the credit of having established the first Co-operative Land Mortgage Bank at Jhang in 1920. During the first few years there was a rise in the number of banks, but with the onset of the economic depression, rot set in and the troubles of the banks were aggravated. Their assets became frozen and they concentrated all their energies on recovery of advances made. Thus they ceased to be live institutions. The reasons responsible for the failure of co-operative land mortgage banks in the Punjab are attributed partly to a lack of loyalty on the part of Directors, coupled with the grant of loans without proper circumspection, and partly to favouritism in the grant of loans and the steep fall in the value of lands as a result of the depression. Land mortgage banks in the Punjab were started during boom period when land values were inflated. The reduced repaying capacity of the agriculturist during the depression created great difficulties for the land mortgage banks in the Punjab. The lead given by the Punjab was followed by Madras where a real

beginning was made in 1929 with the organization of a Central Land Mortgage Bank. In the decade following its establishment, similar institutions were started in other provinces such as Mysore, Bombay, Orissa and Cochin. This, synchronised with the period of the depression, when the need to save the land of the agriculturist from passing into the hands of the money-lender, was keenly felt. After a decade, with the outbreak of the World War II, there was a spurt in prices of land and a rise in the money incomes of the agriculturists, and their economic condition began to improve. The agriculturists cleared off their dues out of increased income or by sale of a part of their lands. The working of debt legislation in several parts of India under which the debts of agriculturists were adjusted and allowed to be repaid in suitable instalments over a number of years obviated to some extent the need to approach the land mortgage banks for long-term finance. Thus the period of the War and the period thereafter witnessed a general shrinkage in the business of co-operative land mortgage banks. But the initial advantages resulting from high prices were gradually off-set by the high cost of living as well as high prices of bullocks, implements and other requirements of farmers, and thus there was a revival of the need for advances from land mortgage banks for undertaking works of land improvement, owing to the need felt to step up agricultural production. As the private sources of credit also dried up as a result of various agrarian legislative measures adopted in several states, the agriculturists found it necessary to look to the land mortgage banks for financing their requirements. A brief state-wise review of the growth and development of co-operative land mortgage banks is attempted in the following paragraphs.

6. **Land Mortgage Banking in Madras.** Madras has achieved a greater measure of success in the field of co-operative land mortgage banking than any other Province in India. The experiments in long-term credit institutions tried in some other provinces impressed the Madras co-operators and the Co-operative Department, with the necessity of constituting a separate agency for providing the long-term requirements of the agriculturists. The earliest scheme was that of F. R. Hemingway, who, in 1919, advocated a scheme of debentures backed up by mort-

gages taken from members of primary credit societies on unencumbered immoveable property for the purpose of raising long-term deposits. Eventually the Government of Madras sanctioned in 1925 the organization of primary land mortgage banks in select centres as an experimental measure. To encourage and popularise the debentures issued by these banks, Government agreed to purchase debentures for an amount not exceeding Rs. 50,000 per bank and Rs. 2 lakhs for the whole of the Province. In accordance with this scheme, twelve land mortgage banks were organized by 1927. They, however, met with difficulties in selling debentures locally; in spite of Government assurance, only three out of twelve banks could find purchasers for their debentures. Meanwhile, the Townsend Committee and the Royal Commission on Agriculture had recommended that the system of issuing debentures by primary land mortgage banks was unsound and that their issues should be centralized by the establishment of a Central Land Mortgage Bank. Thus the Government of Madras, in pursuance of these recommendations, sanctioned, in 1919, the formation of a Central Land Mortgage Bank for centralising the issue of debentures and for co-ordinating the working of primary units, thus avoiding the flooding of the market with diverse unco-ordinated debentures of primary land mortgage banks.

7. **The Primary Land Mortgage Bank**. The area of a primary land mortgage bank was originally confined to a compact group of villages and it was later extended to a Revenue taluq. Membership is open to any person who owns agricultural land in the area of its operation. Every person who needs long-term credit has to subscribe to its share capital an amount equal to 5% of the amount of the loan required by him. Borrowers are in this way asked to contribute to the share capital of the Bank. As such, share capital forms an additional guarantee for the debenture-holders. As the borrower will have a stake in the concern, he is expected to take a real interest in the working of the Bank. Such additional capital in the form of shares contributed by the borrowers will also enhance the borrowing capacity of a primary land mortgage bank, as its maximum borrowing capacity from the central land mortgage bank is fixed at 20 times the paid-up

share capital and reserve fund. A primary land mortgage bank cannot, therefore, borrow money in excess of this limit. But the Vijaya Raghavachariar Committee recommended that ordinarily a borrower should not be required to buy more than one share compulsorily for each loan if the Bank could raise otherwise the required capital. The primary land mortgage bank grants loan to a member up to a maximum limit of Rs. 5000 for the discharge of old debts and redemption of mortgage land, for the improvement of land or of the methods of cultivation and for purchase of land, where such purchase enables the farmer to cultivate his land more profitably. A loan is generally advanced on the first mortgage of land up to 35-40 per cent of the market value of such lands and repayable within a period of twenty years. In 1935, the Government of Madras authorized the Registrar to permit land mortgage banks in select areas to increase the maximum amount which can be borrowed by an individual member to Rs. 10,000 This limit was further enhanced to Rs. 15,000 in 1944. This enhanced limit is permitted to banks working in irriagted areas where crops do not fail. The procedure for the grant of loans is an elaborate one, and shows clearly how a primary land mortgage bank works. A prospective borrower has to apply for a loan to the land mortgage bank working in the area where his lands are situated. The bank approaches the Sub-Registrar of the Co-operative Department for a scrutiny of the purpose of the loan, the borrower's title to the property offered as mortgage security, the value and the annual yield of the land and the repaying capacity of the borrower. If the loan is considered to be safe, the application is then forwarded to the Central Land Mortgage Bank, with the reports of the Bank's Legal Adviser, the Directors of the Bank and the Co-operative Sub-Registrar recommending the loan for sanction. Under Bye-law 28 of the Central Land Mortgage Bank the following conditions are prescribed for grant of loans on the security of dry lands:—

(1) Rain-fed lands may be taken as security along with irrigated lands up to 50 per cent of the total land.

(2) Systematically cultivated and rain-fed lands may be taken as security by themselves. Up to 1938, the amount of the loans issued on the security of these lands was 25 per cent.

Thereafter at the instance of some of the primary banks the percentage was raised by the Central Land Mortgage Bank to 30 percent in regard to black cotton soil. In 1944 this percentage was raised respectively to 40 and 35 in the case of black cotton soil and in the case of systematically cultivated and rain-fed lands. In the former areas the primary land mortgage banks issue loans up to 35% of the value of dry lands. The extent of dry and wet lands to be accepted as security is in the the proportion of 50 : 50. They also take house properties situated in Municipalities and major Panchayats yielding good rental value as additional security, provided 75 per cent of the security offered is land.

The Government of Madras have permitted the issue of Second and Third Loans to borrowers of primary land mortgage banks for all purposes mentioned in their bye-laws subject to the following conditions :—

(a) The Bank should be fully satisfied as to the security (valued at pre-War rates), and the borrower's repaying capacity.

(b) It should be to the advantage of the borrower.

8. **Procedure to be followed in the preparation of Loan Applications and their Transmission to Central Land Mortgage Bank.** A noteworthy feature of the working of land mortgage banks in Madras is the elaborate and systematic procedure that has been laid down for the obtaining of loans by the applicants.

(a) Applications for loans are required to be submitted to the primary land mortgage bank. A preliminary investigation is made by the bank's supervisor and if it is a fit case, the applicant is required to obtain an encumbrance certificate for 23 years in respect of lands proposed to be mortgaged. All available documents of title relating to lands offered as security are required to be submitted with his application. The lands in question are then inspected by two members of the Board of the primary bank deputed for the purpose. The members so deputed are enjoined to submit an accurate estimate of the value of the lands, his capacity and income from lands. Papers are then

forwarded to the Legal Adviser for his opinion. The Legal Adviser has to satisfy himself about the applicant's rights to various items of property and the evidence on which such rights are based. He has also to make clear that there are no outstanding encumbrances on the hypotheca except those sought to be discharged.

(b) **Sub-Registrar's report.** The whole record is then handed over to the Co-operative Sub-Registrar, who after scrutiny submits a report containing the following particulars :—

(i) Whether the security offered is adequate.

(ii) Whether the applicant has sufficient repaying capacity and income.

(iii) The basis on which the applicant has estimated the value and income from the land.

(iv) Whether the applicant has absolute title to the land.

(v) Whether he himself has inspected the lands, and satisfied himself about the purpose of the loan.

(vi) Whether any encumbrances still subsist on any of them. The Directors and the supervisor may carry out investigation jointly.

(c) **Transmission of the application to the Central Land Mortgage Bank and sanction of loans.** The files of the cases which have been sanctioned by the primary land mortgage banks are then forwarded to the central land mortgage bank through the Deputy Registrar, Land Mortgage Banks. In cases where applications are for Rs. 10,000 and above, the Deputy Registrar is required to inspect the lands himself, before forwarding the same to the central land mortgage bank. He has further to make a test inspection of 20% of the cases of loans exceding Rs. 5000 but less than Rs. 10,000. The Deputy Registrar then forwards the files to the Central Land Mortgage Bank after his scrutiny is over. The Executive Committee of the Central Land Mortgage Bank deals with cases of loans on their merit and it is open to it to reject cases which are not sanctioned with the reasons for refusal briefly noted. The decision of the Executive Committee is communicated to the primary land mortgage bank. A specific

further procedure is laid down in cases of those loan applications that have been sanctioned and the loan files are returned. The primary bank is required to obtain a further encumbrace certificate for the period between the date up to which it was obtained and the date of registration of the mortgage deed. The mortgage deeds taken from the borrowers are assigned to the central land mortgage bank in the prescribed form. In the assignment deed the same system of repayment–whether equal to equated instalment as adopted by the borrowers concerned is mentioned in the mortgage deeds. The assignment deeds together with mortgage deeds are then forwarded to the central land mortgage bank. The primary bank is required to send a resolution of the Board authorising the President and the Secretary to receive the amount of loan sanctioned. A central land mortgage bank then sends a draft in favour of the primary bank on the nearest central co-operative bank with which a primary bank should open an account. If there is no central co-operative bank nearby and/or close to the headquarters of the primary bank, the central land mortgage bank forwards a draft obtained from the Reserve Bank of India on the local Government Treasury. The primary bank then intimates to the borrowers of the loan having been sanctioned, so that they may request their creditors to be ready to receive their dues without delay. If the loan is taken for clearance of prior debts, the primary bank should arrange to make direct payment to the creditors and obtain from them vouchers duly discharged. Primary banks are enjoined as far as possible to avoid handling cash. The primary bank calls upon the creditors to go to its office and receive payment of their dues. A document under the Law of Registration is required to be registered within four months from the date of its execution. A mortgage created in favour of a third party before the mortgage to the bank but registered subsequent to the mortgage to the bank will not be disclosed in the subsequent encumbrance certificate. To protect the interest of the primary bank, it should obtain a further encumbrance certificate to cover a period of four months after the registration of mortgage deed in favour of the land mortgage bank. The discharge documents should be attached to the loan file and the file forwarded to the central land mortgage bank with a certificate of disbursement by the Co-operative Sub-Registrar in the

prescribed form. After receiving the papers the central land mortgage bank deposits the loan papers with the Trustee for Debenture-holders for safe custody. When a loan is completely repaid, the primary land mortgage bank sends a certificate to thate ffect in the prescribed form together with a copy of the resolution of the Board countersigned by the Sub-Registrar. The Trustee then releases the documents concerned to the members through central land mortgage bank.

9. **Valuation of Lands.** The most important work in a primary land mortgage bank relates to valuation of lands offered as security. Here again, an elaborate procedure is laid down. The Apprasing Officer has to bear in mind the following points (vide Madras Manual, pages 161-168):—

(i) Lands offered as security have to be inspected and their condition ascertained by actual inspection on the spot. The result of the inspection should be noted in separate note-books maintained for the purpose, whether the lands are distinct survey fields or sub-division may be noted and indentified from the survey map. Sketches of lands inspected may be prepared and attested either by the land-holders of adjacent lands or by the village accountant or karnam. The condition of the crops, if any, grown on the land, the proximity of the land to road and market or other favourable situation and any other point such as the existence of a well or proximity or distance from the irrigation source must also be noted in the note-books. This record forms the basis on which loans are granted.

(ii) The value of a piece of land is ascertained on any one or more of the following bases :—

(a) The price paid for the same land or a portion of it in pre-war years, after making all the necessary allowances for lapse of time, difference of situation and any other peculiar difference between the land sold and that offered as security. Enquiries should be made with a view to ascertaining whether the purchaser has paid any fancy price and whether there has been any rise or fall in the value of land in the neighbourhood, since the date of his purchase.

(b) The price paid for lands of similar description and quality in the vicinity in pre-war years after making proper allowance for lapse of time, advantage of situation etc. In considering such sales care should be taken to exclude all transactions in which the seller obtained a higher price than normal owing to the pressing need of the buyer for any reason. When considering the case of neighbouring lands which have been sold, the transaction should be compared with the case of land to be mortgaged to see in what points they do or do not resemble each other. There may be trees, wells, or sheds or buildings, the value of which may have to be deducted and the net price for the land sold ascertained for the purpose of assessing the value of land to be mortgaged.

(iii) The net annual income from the land may be capitalized at a certain number of years' purchase. The number of years will depend upon the nature of the land, the state of the money market and other circumstances of the case.

(iv) The opinion of the members of the Managing Committee of the local credit society, if one exists, or of some disinterested respectable persons of the locality.

(v) Awards made by Revenue or Civil Courts in case of acquisition of neighbouring lands.

(vi) Sale value of similarly situated property in the vicinity in Court or Revenue auction.

These were the criteria which determined the value of land in normal times. But after the World War II there has been an abnormal rise in the value of lands and the banks are enjoined to follow a safe and cautious policy in determining the amount of the loan to be advanced. The basis adopted is that the hypotheca should be valued at not more than 25% above the pre-war values of lands. The present position in regard to the valuation of the hypotheca is as under :—

In view of the complaints that were often made that the valuation of lands offered as security for the loan was low and that many deserving applicants were denied the assistance of land mortgage banks, the Central Land Mortgage Bank, Madras, appointed a Sub-Committee in 1950 to examine the basis of valua-

tion and the method of valuation of the hypotheca. The recommendations of the Sub-Committee were later endorsed by a Conference of Land Mortgage Banks during the same year. Government thereupon approved a revised basis of valuation which is at present in vogue. Under the orders of the State Government the value of the land is to be ascertained with reference to the recorded statistics of sales to be gathered from the offices of Sub-Registrars for the pre-war years 1936-40. The valuation is made at not more than 25% above the pre-war price, provided the average so arrived at of the pre-war and the post-war (1944-49) value is not exceeded. In addition, the value of improvements made to the particular hypotheca is to be taken into account. In the case of the Land Mortgage Banks in Malabar and South Kanara Districts, the above procedure is applied with the following modification :—

In the South Kanara District valuation is made with reference to the recorded sales statistics as well as by capitalizing the net income and the basis of the two values is taken for determining the eligibility of the applicant for loan. In respect of garden lands in Malabar, the values of trees is ascertained with reference to age and yield and taken into account for purposes of total valuation. In respect of wet lands having a permanent source of irrigation, garden lands and dry irrigated lands growing crops other than plantation crops the maximum amount of loan allowed is 50% of the value of the hypotheca. In respect of rain-fed lands, loans up to 35 to 45 per cent of the value of the hypotheca are allowed (vide Madras Committee on Co-operation—pages 126 and 127). In the case of loans issued for major land improvements such as conversion of dry lands into wet lands in the Project areas and in other areas as well, it is suggested that the valuation should not be on the basis of pre-war value plus 25 % but on the basis of anticipated value of land after improvement. This procedure no doubt involves some risk as the improvement may not often yield the expected results, and in that case the Rayalseema Committee has recommended that Government should come forward to guarantee the difference between the existing value and anticipated value, if the land mortgage banks are to be useful in helping the agriculturists by encouraging them to

undertake works of land improvement., This recommendation is further endorsed by the recent Committee on Co-operation in Madras.

10. **Enquiry into and Ascertainment of Repaying Capacity of the Borrower.** Even more important than the valuation of land is the correct appraisal of the repaying capacity of the borrower. As the net income from the land mortgaged is to be almost equivalent to the annual instalments of the loan, the borrower's other income from his other lands or from other sources has to be ascertained with a view to judging the capacity of the borrower to meet the ordinary needs of the family and special needs of an inevitable nature such as marriages and other social rites. Ordinarily no loan is to be recommended unless the produce from the land is sufficient to cover both the borrower's living expenses and the instalments of loan due to the Bank. The tendency to underestimate the cost of maintenance of the family even in rural parts has to be avoided if the repaying capacity is to be correctly judged and not shown at an artificial level.

(i) **Net Income of the Land mortgaged.** An estimate of the net income is required to be made for the purpose of judging the reasonableness of the amount of the loan. This amount does not normally exceed 75% of the total net income of the land mortgaged during the period of the loan. This is provided in Bye-law No. 40 of a primary land mortgage bank in Madras and the object of the provision is to enable a bank to realise the full amount of the loan, if it is compelled to take possession of the land. If the land is leased, the net amount of income will be represented by the lease amount deducting therefrom the assessment if the lessor bears the assessment. It may be noted that the money or grain rent entered in a lease-deed does not represent net income in some cases and caution is, therefore, advised in ascertaining the correct rental value. The Government had permitted the primary banks to value the produce of the land at not more than 20% above the pre-war value, provided it did not exceed the average of the present and pre-war values. The position further is required to be reviewed in the light of the present-day price index.

11. **Reliability of Irrigation Source.** As loans are ordinarily to be given on the mortgage of irrigated lands, it may be necessary to ascertain how far the supply water in the irrigation source has been unfailing in past years. An examination of the figures in the village statistical register relating to these sources over a series of years would be helpful in this regard. If the grant of remission in a particular area has been found to be more or less frequent, the lands comprised in that area may be regarded as unsuitabe as security. This is an important factor in estimating the total income during the period of the loan. The record of investigation should have reference to the fact that a verification of the village statistical register has been made.

12. **Maintenance of Records of Statistics of Sales and Leases.** In order to appraise the security offered correctly, it is necessary to collect information regarding the sale and lease values of lands in a village, with the owners of which a land mortgage bank has transactions. Every Co-operative Sub-Registrar is, therefore, enjoined to keep a note-book in the form given below relating to statistics of sales and leases for a period of five years and to continue to maintain the record for his guidance. (Vide Madras Manual, pages 171-172).

Village : Ryotwari / Zamindari **Part I–Sales.** Dry / Wet

Block I. Block II. Block III.

(1) Serial No.
(2) Date of Document.
(3) Serial No. 1 and Sub-Division.
(4) Total area.
(5) Total assessment or rent.
(6) Total sale value.
(7) Assessment or rent per acre.
(8) Sale price per acre.
(9) Ratio of assessment or rent to Sale Price.

(10) Remarks :

(a) Proximity to or distance from irrigation source.

(b) Wells, if any.

(c) Kinds of trees, fruit-bearing or otherwise and the value thereof.

(d) Sheds or buildings, if any.

Village $\frac{\text{Ryotwari.}}{\text{Zamindari.}}$ **Part II–Leases.** $\frac{\text{Dry}}{\text{Wet}}$

Block I. Block II. Block III.

(1) Serial No.
(2) Date of Document.
(3) Serial No. and Sub-Division.
(4) Total Area.
(5) Total assessment or rent.
(6) Total lease amount or quantity of rent in kind.
(7) Assessment or rent per acre.
(8) Lease rent per acre.
(9) Ratio of assesement to lease rent per acre.
(10) Remarks :

(a) Proximity to or distance from irrigation source.

(b) Wells, if any.

(c) Kinds of trees, fruit-bearing or otherwise and the value thereof.

(d) Sheds or buildings, if any.

---

13. **Points to be noted in the Record.** *General.* A village should be divided into blocks taken from the settlement classification. The figures relating to transactions about lands in each block may be noted in the book in the order of their occurrence, some pages being allotted to each block. If the village is one which is already selected by the Collector for the record of statistics, the Registration Department maintains statistics for purposes of resettlement. These statistics may be copied out by the Co-operative Sub-Registrar. If it is not one selected for collecting statistics, the Co-operative Sub-Registrar has to start the work

on similar lines according to blocks for recording transactions separately for dry and wet tracts.

Point No. 1. Deeds including different kinds of lands, wet and dry, single crop and double crop, Government and Inam lands, should be omitted as they will not enable the Sub-Registrar to value each kind of land separately, that being the main objective of maintaining the record.

Point No. 2. Where leases insist on payment of rent in kind only, the quantity so paid and not the estimated money value should be recorded, because the money value is a variable quantity, while the yield practically remains constant.

Point No. 3. Where the lessor pays the assessment, the difference between the money rent mentioned in the deed and the charge of assessment should be recorded as a net income of the land, and noted in the remarks column.

Point No. 4. Where the rent is expressed in kind, the amount paid by the lessor should be noted, the difference between the money value of the rent and the latter amount (assessment) representing the owner's net income from the land being mentioned in the remarks column.

Point No. 5. Where the lands are registered as dry but are actually under wet cultivation, a note should be made in the remarks column about the alteration.

Point No. 6. Existence of wells or other means of irrigation, trees, buildings should be noted in the remarks column. The net income from the land and consequently its market value can be ascertained only after deducting the value of these appurtenances or income from the sale value mentioned in the sale-deed.

Point No. 7. Extraordinary transactions where special circumstances exist such as relationship between the indebted seller and the money lending purchaser, or gift deeds where the owner may estimate the land, should be denoted.

Point No. 8. Awards by Land Acquisition Officers or by Civil Courts in appeal or their decisions will be reliable guides

in the determination of land values as they are generally accepted by interested parties. The awards are available in Registrars' Offices.

14. **Revaluation of Mortgaged Lands. The Need for Revaluation.** As the lands mortgaged from the chief security for debentures, they must be inspected and revalued annually in order to ensure that —

(1) They have not changed hands.

(2) Their value has not been affected by deterioration in water supply or erosion.

The Directors are enjoined to inspect all mortgaged lands every year before the 15th of August and a report submitted to the Deputy Registrar, Land Mortgage Banks, and the Central Land Mortgage Bank duly countersigned by the Co-operative Sub-Registrar.

15. **Points to be noted during revaluation and rectification of defects.** The Department has prescribed that the following points should be remembered in the revaluation of properties and preparation of a report in regard thereto:—

(1) The valuation should be based on recent sales of adjacent lands, if any, and their current values should be stated.

(2) Valuation should be furnished in respect of all loans outstanding against members as on 30th June each year.

(3) Particulars should be given separately for different classes of loans, i.e., loans issued out of (a) bank's own debentures, (b) bank's own funds and not assigned to the Central Land Mortgage Bank or the Trustee, (c) money borrowed from the Central Land Mortgage Bank, and (d) Collections of loans.

(4) If there are any subsequent alienations, borrowers should be directed to see that the vendees become members and give a written agreement binding themselves to repay the loans under the original conditions of contract. If they fail to do so, measures should be taken to call in the entire loan.

(5) If the borrowers are dead, their legal heirs should be admitted as members and additional bonds should be taken from them agreeing to pay the loans under the original contract. These bonds should be got registered and retained by the banks for enforcing the terms of the loans, whenever necessary.

(6) The borrowers are required to give certificates to the effect that they have not alienated the hypotheca or created any encumbrance on it.

16. **Verification and personal inspection by the Departmental staff.** When the reports on revaluations are received, the Co-operative Sub-Regisrtars are required to visit and check valuation of the lands in at least 10% of the loans issued by the Bank and the lands selected for purpose should be typical of each locality. They are further required to note against each loan their own estimate of the value of properties mortgaged. They should also visit the Sub-Registrar's offices concerned to see if any subsequent encumbrances are created or alienations made. With each revaluation report a Co-operative Sub-Registrar is required to submit a note on the results of revaluation and steps taken to rectify defects or any other points worth reporting upon. The Deputy Registrars, on receipt of report on revaluation, are required to satisfy themselves that the basis of valuation adopted by the Directors and the Co-operative Sub-Registrar is correct, and that the values are not inflated. When they visit the banks on their usual rounds, they should verify a few items of lands revalued. They should review the revaluation report of each bank and send a copy thereof to the Deputy Registrar of the district in whose jurisdiction the bank is situated, and the Central Land Mortgage Bank and to the Registrar, along with the reports of the Directors and the Co-operative Sub-Registrars for his perusal and return.

It may be noted that the revaluation every year involves avoidable expenditure to the banks by way of travelling allowance to the Directors and extra labour to the honorary workers. In view of this, therefore, Government have agreed to biennial revaluation of properties mortgaged, 50% being taken up each

year. The mortgages in respect of loans which are in arrears should have to be revalued annually. Co-operative Sub-Registrars are required to check 10 % of the revaluations made by the Directors. The lands for loans issued during the year are not required to be revalued, but what is necessary is that all loans should be revalued once in three years. The subjoined table indicates the position of primary land mortgage banks on 30th June of each of the following five years.

(Amounts in lakhs)

	1938-39.	1945-46.	1949-50.	1951-52.	1953-54.
(1) No. of Banks.	110	119	126	130	73
(2) Membership.	47,153	48,125	1,22,874	1,44,387	88,411
(3) Owned Funds.	15.32	27.0	39.27	48.79	26.35
(4) Borrowings and Deposits.	189.18	242.26	389.36	486.54	275.85
(5) Debentures.	2.99	0.08	—	—	—
(6) Working Capital.	207.49	269.42	535.33	759.49	363.20
(7) Fresh Advances.	59.43	41.18	73.82	82.67	48.07
(8) Recoveries.	10.28	26.19	28.61	33.13	21.69
(9) Outstandings.	198.58	245.60	393.54	493.43	331.41
(10) Overdues.	1.28	0.26	0.99	2.18	2.72

17. **Finances of Primary Land Mortgage Banks.** Land Mortgage Banks normally obtain their funds, as could bee seen from the above statistics, from share capital, statutory reserves, deposits and other borrowings. These items are discussed below:—

(1) **Share Capital, Statutory Reserve and owned Capital.** Though share capital is not the main source of capital for a primary land mortgage bank, yet it is found necessary to have a certain amount of share capital for a bank. It is contributed by members and forms a certain proportion of borrowings in a co-operative concern. The share capital subscribed by borrowers forms an additional security for their loans and it is returned to them when the loans are fully repaid. The mortgage bank builds up also a reserve fund out of its profits and in order that the share capital and the reserve fund may form a real security for the debentures

issued, and may be available in case of need, the amounts accumulated in the fund are invested outside the business, preferably in Government securities. The share capital and reserve funds of primary banks may be kept as deposits with a Central Land Mortgage Bank.

(2) **Deposits.** It is considered a safe policy to separate mortgage banking from deposit banking. The land mortgage banks are allowed to do deposit banking to a limited extent from special sources with special objects, viz., deposits obtained from borrowers for adjustment against their loan investments. Central land mortgage banks are also allowed to borrow temporarily from other banks, Government and other sources, pending the issue of debentures.

(3) **Loan operations.** The disbursement of loans on the security of land constitutes the main function of co-operative land mortgage banks. They issue loans which run up to several years and on the first mortgages only. They usually provide for the minimum and the maximum amount of loan that could be granted to individuals. The minimum is provided because the amount of loan should be sufficient to justify the expenses connected with the sanction of loan such as the valuation of land, examination of the title deeds, etc. The minimum in India is generally Rs. 400. Similarly, the maximum is laid down with a view to see that facilities provided by the land mortgage banks are utilised and enjoyed by as large a number of farmers as possible and not monopolised by too big land-holders. The maximum limit fixed varies generally from Rs. 10,000 to Rs. 15000.

(4) **Rate of Interest on Loans.** Land mortgage banks in India are in a position to float their debentures at a fairly low rate of interest because of the Government guarantee for their debentures. Unless the benefit of this is passed on to farmers, land mortgage loans can have little attraction to the cultivators of land. While land mortgage banks should organise their work on a sound, economical and efficient system, they should also obtain sizeable business in order to enable them to fulfil their primary object of lending at a low rate of interest.

(5) **Objects of Loans.** Land credit institutions in foreign countries grant loans to farmers for objects which include improvement of land, provision of irrigation, fencing, transport, drainage facilities, construction of farm buildings for residence and storage of produce, agricultural equipment and machinery and repayment of past debts. In India, however, bye-laws of land mortgage banks contain provisions for grant of loans, for discharge of prior debts and for such other objects as improvement of lands, improved methods of agriculture, purchase of land, purchase of costly machinery. Except in Bombay and Baroda, land mortgage banks have confined their operations mainly to grant of loans, for redemption of old debts. In Bombay the Provincial Land Mortgage Bank grants loans to farmers at 3¼ per cent for digging wells and at 5½ per cent for improvement of land and purchase of agricultural machinery as against the usual rate of 6 per cent. The State Government has agreed to reimburse the Bank with the difference. The machinery of land mortgage banks was primarily designed in India for the discharge of prior debts of farmers with the view to save them from losing their land during the period of the economic depression. Land mortgage banks have succeeded to a great extent in States like Madras in reducing the burden of debt by advancing loans at a low rate of interest. However on account of the rise in the value of agricultural produce and the value of the land and on account of various measures of debt legislation, a substantial portion of the debt has been paid off or adjusted. In these circumstances the question of liquidation of prior debts has at present ceased to be a live issue. In the national context of stepping up agricultural production, the machinery of land mortgage banks has to be harnessed to the full, because India as an agricultural country is deficient in food production. Large-scale improvements in the land and methods of cultivation would be necessary. Similarly, vast areas lying waste would have to be brought under the plough. Land mortgage banks can be useful in financing these activities, but there are various difficulties that confront them in this respect. In the first place, the farmers have no exact idea of what improvements should be affected on their lands. Even if they are aware, facilities for carrying them out are not easily available. In the second place, land mortgage banks have no machinery of their own to examine or supervise such works of land improvement.

Again, the smallness of size of the holdings of the farmers militate against the carrying out of improvements with profit. As particular steps to remedy the situation, co-operative farming societies may be established after a survey of improvements likely to yield good results has been made in different areas in the first instance. A survey of facilities that would be required for carrying them out would also have to be undertaken. These surveys may be undertaken in the areas served by community projects and N. E. S. blocks.

(6) **Repayment of Loans advanced.** The loans advanced by land mortgage banks are made repayable in annuities fixed at the time of the grant of loans. This annuity of equated payment consists of interest and principal, the contribution to the former decreasing and the latter increasing as the loan goes on being repaid. Thus the borrowers are enabled to liquidate their loans in instalments payable over a number of years. The land mortgage banks cannot call in their loans even if the rates of interest go up except in the event of defaults or deterioration or fall in the value of security and in the event of failure on the part of borrower to make good the deficit in the margin. Still, however, the land mortgage banks offer their borrowers facilities to make advance payments in order to enable them to repay their debts as early as possible. Borrowers are also persuaded to repay their instalments in amounts which are in excess of the instalments fixed, so that the surplus may be retained to the credit of the borrowers in savings bank accounts or fixed deposits to be utilized towards repayments in years when the borrowers are not in a position to repay the usual amount of instalments due to causes beyond their control such as failure of crops, drought, floods etc. The interest on such special savings accounts may be paid at the loan rate or at a slightly lower rate. If the credits in the special S. B. accounts are sufficiently large, they may be utilized in the clearance of the loan earlier. If, however, there is a general tendency on the part of the borrowers to make large-scale advance repayments in order to take advantage of the lower rates of the interest that may be prevailing and the banks are likely to suffer in consequence, a penalty may be imposed on the borrowers on advance payments made within a period of ten years from the date of issue of a loan. It may be noted that occasions might arise in the event of precipitate fall in the interest rates in general when the

borrowers are tempted to make advance repayments on a large scale in order to reap the benefit of the lower rate by repaying old loans bearing higher rate of interest and borrowing subsequently at a lower rate. It is in such circumstances only that advance payments of loans will to be penalised and not otherwise.

(7) **The Need for special powers of Recovery of Loans.** It is normal to find that land mortgage banks are in all counrtries given special powers for recovering their loans in case of default. They are also given powers to sell the hypotheca without recourse to courts in case of default. They have been further empowered to institute receivership proceedings without petitioning the courts. In India also most of these powers are enjoyed by land mortgage banks in Madras as a special Land Mortgage Banks Act is enacted there. Unless proper measures are taken for recovering defaulted amounts, the entire system of land mortgage banking will be-paralysed and ruined.

18. **The Madras Co-operative Land Mortgage Banks Act, 1934** : In accordance with the recommendations of the Townsend Committee on Co-operation in Madras that a separate legal enactment dealing with land mortgage banks was necessary, The Madras Co-operative Land Mortgage Banks Act was passed by the Madras Legislative Council in 1934. This Act has given certain powers and privileges to the land mortgage banks. It has conferred on them adequate powers for the speedy recovery of arrears from defaulters by the distraint and sale of produce on the mortgaged land and by the sale of the mortgaged land itself without intervention of the courts. It has also limited the powers of the mortgagors to lease the mortgaged properties to five years at a time and has removed certain difficulties in the working of the banks arising from the provisions of the Insolvency Acts and the Land Improvement Loans Act. The Act has also conferred on the banks the right to pay off prior debts of the mortgagors to the creditors of such mortgagors direct, so as to ensure that debts for the payment of which loans are granted are fully discharged and that the mortgagor is relieved of his debts. Under the Act, it is not necessary for any Director, Secretary or the Officer of a land mortgage bank to appear in person or by an agent at any office of the

Sub-Registrar to execute documents in his official capacity. Again, the borrowing of a loan for the purpose of carrying out agricultural improvements or of purchasing lands is made a legitimate purpose binding both on a minor and on a reversioner. The burden of proof as to whether or not a mortgage executed by the manager of a joint Hindu family is binding on the members thereof is under the Act thrown on the party raising that question.

19. **The Madras Central Co-operative Land Mortgage Bank.** Following the recommendations of the Townsend Committee, the Madras Central Co-operative Land Mortgage Bank, having both primary banks and individuals as its members, was registered on December 20, 1929. The bank has an authorised share capital of Rs.20 lakhs made up of 20,000 shares of Rs. 100 each. In 1934, the bye -laws of the Bank were amended in order that the Government of Madras might become a member and take shares. It took five shares and is transferring two of them to each of the two persons nominated by it on the Board. The maximum amount of shareholding by an individual has been fixed at Rs. 20,000, but there is no restriction regarding the number of shares a primary land mortgage bank might hold. It is obligatory, however, on it to take one share for every sum of Rs. 5000 that it might borrow. The main object of the Central Land Mortgage Bank is the financing of the primary land mortgage banks working in different parts of the State.

(i) **Management.** The administration of the Bank is vested in a Board of Directors. The Board consists of eighteen members, of whom the Registrar is a Director -Ex-Officio. Of the remaining fifteen are elected, from among the representatives of shareholding primary land mortgage banks and six from among the individuals. The members are nominated to the Board by the Registrar with the approval of Government. There is an Executive Committee to look after the day-to-day administration of the bank constituted by the Board consisting of the President, the Vice-President, the Treasurer and two more members, and the Registrar of Co-operative Societies. The sanctioning of the loans is entrusted to this committee. If either of the Registrar's nominees is not on the Executive Committee, the Registrar nominates one of them to the Executive Committee which consists of seven members. The Board and the Trustee

for Debenture-holders can direct a primary land mortgage bank to take action against the defaulter in a primary land mortgage bank by the distraint and sale of produce and if the primary bank fails to take action, they themselves can take action. The Board is also empowered to exercise supervision over the primary land mortgage banks and in order to carry out this purpose, it is authorises to frame regulations under the Act.

(ii) **Loan Transactions of the Bank.** The loan operations of the Bank developed slowly in the first few years, as it took time to revitalise the dormant primary banks. During 1938-39, advances reached the record level of Rs. 58.53 lakhs. There was a lull in the business of the Bank during the year 1937,-38, due to the publication of the Agriculturists Relief Bill which affected the prior debts of members, for the redemption of which the Bank has been largely lending. The reasons for the decline in the loan transactions of the Bank during 1939-40 and 1940-41 were:—

(a) The suspension of the issue of new loans for nearly three to four months consequent on the discontinuance by the Madras Government of the temporary accommodation to the Bank for the issue of loans to be repaid on floatation of debentures, and the decision of the Bank on resumption of business to pursue a policy of issuing loans up to a maximum of Rs. 5000 to an individual, instead of Rs. 10000, which has been previously issued in select areas.

The subjoined table indicates the amounts advanced by the Central Land Mortgage Bank over a number of years as indicated below:—

	1945-46	1946-47	1947-48	1948-49	1949-50
Fresh Advances (in Lakhs)	42.80	47.66	61.55	77.79	72.24
	1950-51	1951-52	1952-53	1953-54	
Fresh advances (in Lakhs)	82.27	82.84	104.36	48.07	

These statistics indicate a steady rise in the amount of fresh advances made by the Bank and the reduction in the amount

during 1953-54 is due to the separation of Andhra and transfer of a number of primary banks to the newly created Andhra State Land Mortgage Bank. Thus the figure for 1953-54 relates to the residuary State of Madras. The bulk of loans issued so far has gone to liquidate the prior debts of members incurred for purposes like marriages, education, litigation, purchase and improvements of lands. Since 1940, the Bank has started issuing loans for works of land improvement with the Co-operation of Departments like Agriculture, Revenue, Irrigation etc. But such loans are restricted to the following purposes:-

(1) All land improvement including irrigational facilities and other objects mentioned in the Tagavi Manual, growing of fruit trees and plantations and installation of machinery.

(2) Building of granaries and tobacco-barns.

(3) Purchase of land to round off holdings and extraordinary demands due to famine and floods.

(c) **Lending Rates** : The Bank has from its inception maintained a margin of 1 per cent between its borrowing and lending rates, the primary banks also adhering to the same margin and the ultimate borrower being charged 2 per cent over the rate at which the Central Land Mortage Bank issues its debentures. In 1938, the Government of Madras, on the advice of the Reserve Bank of India, insisted on the increase of this margin to the ultimate borrower to 2½ % in order to enable the Bank to build up strong reserves. This margin was further raised to 3 per cent in 1941. According to the orders of Government, while the bank was raising debentures at 3 per cent, the ultimate borrower got the money at 6 per cent. This was too high and on representation made by the Bank to reduce the margin, and as a result of the recommendations made by the Co-operative Planning Committee, the State Government agreed to reduce the margin from 3 to 2¼%. This reduction in the rate of interest was given effect to in respect of all loans sanctioned by the Central Land Mortgage Bank from 18th April 1947. Thus a member of a primary land primary bank is able to get a long -term loan at 5¼% per annum.

(d) **Borrowings of the Central Land Mortgage Bank.** The funds of the Bank are chiefly obtained by issue of debentures or bonds. The interests of debenture-holders are safeguarded by the Registrar in his capacity as the Trustee for the Debenture-holders. The Instrument of Trust executed by the Board on the one hand and the Trustee on the other lays down the conditions of issue and redemption of debentures, and disposal of collections received from primary banks and other details. The debentures issued are secured on the first mortgage of lands and other assets transferred by primary land mortgage banks and vested in the Trustee, and on the other properties of the Bank. The total amount of debentures in circulation at any time shall not exceed the total amount from time to time owing on the security of mortgages. Debentures are transferable by means of transfer deed which is exempt from stamp duty. The Bank issues interest warrants for the payment of half yearly interest, while the principal amount is repayable on the stipulated date or earlier. The practice regarding debentures till 1938 was to float debentures throughout the year at the rate of interest prevalent at the time of each issue and anybody who could deposit 10% of the value would be alloted and the remainder within ten days of the notice of allotment. The issue of debentures at varying rates of interest and on varying dates of maturities was causing confusion to financial houses and banks, and that is why they were not popular as investments, though they were Trustee Securities. On the advice of the Reserve Bank of India, the Bank began to issue debentures only once or twice a year for a fairly large amount during favourable periods as soon as mortgages accumulated for a large amount, and Government came to its help by making advances to the Central Land Mortgage Bank which could be repaid out of the issue of debentures. The conditions laid down by Government for such a temporary accommodation were as follows:—

(i) The amount of such accommodation combined with the amount of outstanding debentures carrying Government guarantee should not at any time exceed the permissible maximum guarantee.

(ii) Government should be kept informed of the intended floatation of debentures.

(iii) The Bank should not take advances from the Government more than once a month and it should communicate its requirements at least a fortnight in advance.

(iv) All outstanding advances should be paid on each occasion when debentures are floated and no advance should be allowed to remain outstanding for more than nine months. A fresh advance may be taken to repay an outstanding advance which has run the maximum period of nine months.

(v) The rate of interest charged will be the bank rate. Till 1946 the lending rate was 3% which was later reduced to 2½% on a representation made by the Bank.

(i) **Period of Debentures.** The important question to be considered in connection with the issue of debentures is the period for which they should be floated. Practice in this respect differs from province to province, and Madras experimented with advancing funds for a period of ten years but came to the conclusion, after some years of experience, that twenty years would be a more reasonable period. The question was debated at the Thirteenth Conference of Registrars in 1939, and the conference recommended that ordinarily mortgage loans other than those for land improvement should not be given for more than twenty years and the margin between the maximum period of the loan and the period of debentures should not exceed five years. The recent Rural Credit Survey Committee has made a different approach to the problem and it has recommended that in keeping with a policy of providing loans of varying periods for agricultural development, Central Land Mortgage Banks should issue debentures for varying periods, e. g., five, ten, fifteen or twenty years in conformity with the purpose of the loans. Debentures of relatively shorter duration, say, five or ten years are likely to make much more effective appeal than long-dated ones to the investment market and so to institutional investors such as joint-stock banks, insurance companies, etc.

(ii) **Marketability of Debentures.** The question of easy marketability of debentures issued by the Central Land Mortgage Banks was considered by the Registrars' Conference, 1939, and it recommended that the Reserve Bank should purchase a limited

amount of the debentures of approved Central Land Mortgage Banks and should advance money against such debentures. In accordance with this recommendation, the Resrve Bank purchased in 1948, 10 per cent of the debentures of the Madras Land Mortgage Bank. With a view to increase loans for productive purpose and to promote the success of the debenture issues of Central Land Mortgage Banks, the Government of India and the Reserve Bank drew up a scheme in December 1953 according to which (a) Government of India (or the State Government by arrangement with the Government of India) and the Reserve Bank together have agreed to take up 40 % of any issues of debentures or the unsubscribed balance, whichever is smaller. (b) Half the purchases they make will be on Government account and half on Reserve Bank account. (c) The concerned Land Mortgage Bank should agree to the condition that within twelve months of the combined purchase loans will be made by it for productive purposes aggregating to not less than half the total amount involved in such purchase and that in granting such loans special attention should, as far as possible, be paid to community project areas, national extension service blocks and other areas where agricultural development is scheduled to take place, e. g., as a result of major irrigation work having become operative in the area. (Vide p. 62 of the Review of the Co-operative Movement by the Reserve Bank of India for 1950-52). In order to make the debentures popular, they have to be recognised as security eligible under Section 17 (4) (a). In cases where it is not likely that a particular issue will be fully subscribed, the Rural Credit Survey Committee has recommended that the Reserve Bank should come forward to make direct loans to purchase the whole or part of special development debentures of the Land Mortgage Banks by drawing upon the National Agricultural Credit (Long-term operations) Fund. The Rural Credit Survey Committee observed that this type of operation would be distinct from the purchase of marketable debentures which, in pursuance of the Bank's existing policies, is already a part of its ordinary operations. In all these cases, both principal and interest should be guaranteed by the State Government.

(iii) **The Rate of Interest on Debentures.** The Gadgil Committee had complained that the rates of interest charged

by land mortgage banks were high and that agriculturists were not likely to make much use of their finance unless the rate was reduced to 4%. It had also recommended that the rate of interest on current finance should be 6¼% and that for development finance should not exceed 4%. But that was only possible through Government subsidies. It has been possible, however, for the land mortgage banks to issue debentures on favourable terms because they carry Government guarantee. If in course of time the business of land mortgage banks expands to a considerable extent, owing to the necessity of bringing about improvements in land and in methods of cultivation throughout the country, Government may not find it possible to guarantee their debentures to an unlimited extent. Their success in issuing debentures will ultimately depend upon the ways and means they adopt to win the confidence of the investing public.

(iv) **Method of Retirement or Redemption of Debentures.** Different systems have been adopted in different countries in respect of redemption of debentures of a land mortgage bank. Though the bonds have a definite period of maturity, the institutions issuing them have a right to retire bonds every year on giving specific notice to the bond-holders. The usual practice followed is to buy the bonds from the market every year from collections of principal of loans, if they are available at or below par. In Madras under the provisions of the Madras Land Mortgage Banks Act, the debentures of the Central Land Mortgage Bank may contain a provision, fixing a period not exceeding ten years from the date of issue during which they shall be irredeemable or reserving to the Board of Directors of the Bank the right to call in at any time any of the debentures in advance of the period fixed for redemption after giving to the debenture-holders concerned not less than three months' notice in writing. In the early years, the Bank adopted two methods to redeem debentures: (1) Redemption of all debentures of a particular series before maturity by giving due notice to the debenture-holders concerned with the permission of the Trustee; (2) Redemption of debentures before maturity to the extent of collections of loans under principal by drawing lots and issuing notices to the holders of debentures so drawn for redemption with the permission of the

Trustee. The Reserve Bank of India considered both these methods as unsatisfactory and suggested the adoption of a scientific menthod of retirement. Under the method suggested, contributions are made to the Sinking Fund every year out of collections of loan in such amounts as with interest accumulation thereon during the period of the debentures would be equal to the amount of the debentures to be redeemed at the end of the period for which they are issued. The repayments of loans earmarked are invested in gilt-edged securities and the funds so invested are managed by the Trustee for the Debenture-holders. In 1937, the Madras Central Land Mortgage Bank deleted the option to redeem the debentures by drawing lots to the extent of principal collections with the permission of the Government. Up to and inclusive of the 23rd Series the Central Land Mortgage Bank has been remitting all the collections received from the primary banks into an account called the " General Debentures Redemption Fund Account" and utilising the amount in the Fund for redemption of debentures. From the 24th Series and onwards no debenture can be redeemed within ten years after its issue, and as the debentures mature for payment after twenty years, it was considered necessary to provide for accumulation of funds for the retirement of the debentures on a more scientific basis as suggested by the Reserve Bank of India. The State Government accordingly ordered that the Bank should throughout the period of currency of each series of debentures issued, make an annual equated contribution to a Debenture Redemption Fund at such a rate that the contribution accumulating at compound interest at the same rate of interest as borne by the debentures would provide adequate funds to pay off the debentures on maturity and that if the amount to the credit of the Debenture Redemption Fund invested and the net return therefrom in any year fell short of the rate of interest on the debentures, the short fall should be made good from the revenue of the Bank in the same year. This order was later modified and Government agreed that the annual equated contribution to the Debenture Redemption Fund of future series of debentures to be issued by the Bank be made at an assumed rate which should not exceed the rate of interest on debentures or not less than half a per cent below the rate of interest on debentures. These orders affected the 24th Series

of debentures. It may be noted that the above system involved the maintenance of an elaborate and complicated system of accounts and it was necessary to simplify the procedure. A system called the fixed instalment system was, therefore, adopted with the permission of the Government. Under the revised system the Debenture Redemption Fund is built up by paying into it every year out of collection of loans a sum equal to the amount of a series of debentures divided by the number of years for which the series has been issued. For instance, if a series of debentures has been issued for Rs. 20 lakhs redeemable on the expiry of 20 years from the date of issue, the Bank should pay every year Rs. 1 lakh into the Debenture Redemption Fund, so that at the end of the 20th year Rs. 20 lakhs would be made available to retire the debentures. The balance of the collections will be merged in the general funds of the Bank. The Bank will, thus have a single debenture redemption fund account for all the series but subsidiary accounts should be maintained to show the position in respect of each series of debentures. This method has been given effect to from the 40th series onwards which was issued on the 14th May 1947. The debenture redemption fund investments are valued annually and any deficit noticed is made good by the Bank out of the general revenues. The debentures commencing from the 24th series were issued subject to the condition that they were irredeemable for a period of ten years from the date of issue. But it is not necessary to fulfil this condition where the Bank itself purchases the debentures from the debentureholders before the expiry of the ten-year peiod. Under the Trust Deed the Bank can purchase the same series of debentures from out of the amounts accumulated in the Debenture Redemption Fund of that particular series to the extent available in the market. When such purchases are made, it is obvious that the Bank becomes both debtor and creditor in respect of the debentures purchased. The money borrowed by means of debentures is not due to any outside creditor. In such circumstances, under the orders of Government the Bank can set off the amount covered by debentures against the amount available in the Debenture Redemption Fund of the same series.

(v) **Causes of Success of the Bank.** One of the causes leading to the success of the Central Land Mortgage Bank is a special power enjoyed by it under the Madras Land Mortgage Banks Act, 1934, of recovering its loans in case of default from the borrowers without involving judicial procedure or intervention of civil courts. The Townsend Committee in Madras had recommended that land mortgage banks should be empowered to bring mortgaged properties of defaulting borrowers to sale without resort to civil courts, subject to the right of the aggrieved party to question in a civil court a Bank's action and to safeguard its interest. After considering the divergent views prevalent on the question, the Central Banking Inquiry Committee endorsed the opinion of the Townsend Committee. The Bank also enjoys the powers to recover dues from defaulters by the sale of produce without having resort to courts. The Bank is required to enforce these powers in actual practice, as loans are not sometimes granted after proper scrutiny nor are borrowers properly trained in the proper use of credit nor are they exhibiting a proper sense of obligation.

19. **Delays in the sanction of Loans.** One of the major complaints against Land Mortgage Banks in Madras relates to the great delay that occurs for sanctioning loans because of a detailed procedure prescribed. Normally it takes about three to six months for a loan to be sanctioned and disbursed. In some cases it takes even a year or so. The factors which cause delay and the remedies suggested to the recent Committee on Co-operation in Madras for consideration are given below :—

(1) There are several stages through which a loan application has to pass. One or more of these stages can be eliminated.

(ii) The scrutiny of the borrower's title extends right up to the resettlement period. It would be enough if the scrutiny is confined to a period of 23 years prior to the date of application.

(iii) The applicants are unable to furnish the necessary particulars and documents. Consolidated instructions and guidance should be given in time to the applicants to enable them to satisfy fully the requirements of Land Mortgage Banks. Also an amendment to the Land Mortgage Banks Act on the lines of Section

7 (i) of the Land Improvement Loans Act, 1883, giving 'priority of title, so to speak to the Land Mortgage Banks in respect of the hypotheca offered as security, will serve to minimize the time taken for the scrutiny of title.

(iv) Loan files of primary land mortgage banks which are sent to their legal advisers for opinion, are not returned by them promptly. The scale of legal fees might be enhanced, if necessary.

(v) The staff of supervisors and Co-operative Sub-Registrars is inadequate and should be strengthened.

We proceed to examine the validity of the various causes and the effectiveness of the remedies suggested :—

(i) An account of the various stages through which a loan application has to pass before disbursement, is given below:—

(a) A preliminary investigation has to be made by the Supervisor of the Primary Land Mortgage Bank.

(b) An encumbrance certificate has to be obtained.

(c) The lands offered as hypotheca have to be inspected by a Director of the bank.

(d) The title of the applicant to the land, encumbrances over the land, etc. have to be examined by the bank's legal adviser.

(e) The loan file has to be scrutinised by the Co-operative Sub-Registrar and the hypotheca inspected by him.

(f) The loan application has to be sanctioned by the Board of the Primary Land Mortgage Bank.

(g) The Deputy Registrar for Land Mortgage Banks has to examine the file and has to inspect the lands himself in respect of loan applications for Rs.10,000 and above.

(h) The loan application has to be considered and sanctioned by the Executive Committee of the Central Land Mortgage Bank after scrutiny by their office and their legal adviser.

(i) The mortgage deed has to be registered by the applicant.

(j) A further encumbrance certificate has to be obtained by the primary land mortgage bank for the period between the date up to which it was obtained previously and the date of registration of the mortgage deed.

(k) The mortgage deed with encumbrance certificate and with a report showing how the conditions of loan sanction order which can be complied with at that stage have been fulfilled, has to be sent to the Central Land Mortgage Bank.

(1) Thereafter the loan amount is disbursed by the Central Land Mortgage Bank to the Primary Land Mortgage Bank and by the latter to the applicant directly or to his creditors. The system of co-operative land mortgage banking in the Madras State is a highly centralized one. Every loan made by a primary land mortgage bank has to be sanctioned by the Executive Committee of the Central Land Mortgage Bank. This centralization of control has been necessitated by the fact that all the funds required by the primary banks for issue of loans to their members have to be raised by the issue of debentures by the Central Land Mortgage Bank, the repayment of which is guaranteed by the State Government. In order to safeguard the interests of Government and Debenture-holders, the procedure prescribed for the investigation of title etc., has necessarily to be thorough and objective. Let us now consider the various suggestions made for the elimination of delay in the grant of loans to individual members of primary land mortgage banks.

(1) The Loan Applications below Rs. 2000 may go direct to the Central Land Mortgage Bank instead of through Deputy Registrars, Co-operative Land Mortgage Banks, as at present. The Madras Committee on Co-operation (1940) had recommended that Co-operative Sub-Registrars might be empowered to forward applications direct to the Central Land Mortgage Bank if the loan application does not exceed Rs. 5000. The State Government did not accept this recommendation. In 1938, a few selected Sub-Registrars were authorised, as an experimental measure, to forward directly to the Central Land Mortgage Bank loan applications of amounts not exceeding Rs. 500 in each case. It was found that by pursuing this procedure

time saved was negligible. Only about a week was saved,. It was also the experience of the Deputy Registrars that in some of the applications forwarded by the Co-operative Sub-Registrars further clarification was needed or rectification of defects had to be insisted on. If the applications had not been scrutinized by the Deputy Registrars, the defects noticed by them would have gone on unnoticed and unrectified. In view of these factors, the Registrar, Co-operative Societies, Madras, suggested in 1942 to the Central Land Mortgage Bank that the limited power of forwarding loan applications direct to the Central Land Mortgage Bank enjoyed by the Co-operative Sub-Registrars should be withdrawn. With the acceptance of this suggestion by the Central Land Mortgage Bank, the old procedure was restored. The present procedure, it may be noted, ensures effective checks at various levels. No loan so far sanctioned by the Central Land Mortgage Bank has proved irrecoverable, and this in itself bears testimony to the soundness of the procedure. It may be noted that the duration of the loan is for a period of 20 years and during this long period, contingencies arising from fluctuations in the value of the hypotheca, yield of the land, repaying capacity of the borrower, and disputes as to title to the property of the borrower have to be provided against, and that is why it does not appear, in the opinion of the Madras Committee on Co-operation (1956 to dispense with any of the stages through which the application has to pass.

(2) **Scrutiny of title to land for 23 years.** Though normally it may be sufficient to confine scrutiny of title to 23 years, it is possible to visualise cases where non-scrutiny of the title relating to an earlier period might result in overlooking certain hidden claims which may afford scope for litigation at a later date. Every application has, therefore, to be judged on its own merits and it is not desirable to lay down as a general rule that the scrutiny of the title should be restricted in all cases to a period of 23 years prior to the date of application and that entries in the resettlement and survey registers can be ignored.

(3) **Inability of a borrower to furnish documents needed by a primary land mortgage bank.** A major cause of delay in

the issue of loans is the inability of the borrower to produce the information and documents called for by a land mortgage bank. Sometimes the documents are drawn up in rural areas in vague terms written as they are by the village scribes who are not conversant with relevant laws. This necessitates a further demand for documentary proof of the applicant's title. Sometimes relevant documents required by a land mortgage bank are also not preserved carefully by the borrowers. Sometimes borrowers are also required to get certificates of discharge of mortgages which takes time if the mortgagees are dead or their heirs are reluctant to furnish them. But a land mortgage bank cannot dispense with a document, the production of which is legally necessary before a loan can be sanctioned.

(4) **Amendment of the Land Mortgage Banks Act, Madras, on the lines of the Land Improvement Loans Act, 1883.** Under Section 7 of the Land Improvement Loans Act, 1883, all loans granted with interest may be recovered out of the " land for the benefit of which the loan has been sanctioned, as if they were arrears of land revenue. " Under Section 7 (1) of the Act, all the prior mortgages take a secondary place with the exception of certain classes of prior interests such as the interests of reversioners in the estate of a Hindu family. The incorporation of such a provision in the Land Mortage Banks Act will reduce delays to a certain extent. The Rural Credit Survey Committee has also recommended that the State Government should undertake suitable legislation of eliminating the delays involved in the sanction of loans by Land Mortgage Banks.

(5) **Delays caused in obtaining Legal Opinion.** Delay sometimes occurs in obtaining legal opinion because the legal Advisers attend to more remunerative work first. The scale of fees at present allowed to Legal Advisers is rather low. It is Rs. 1 for every Rs. 100 or part thereof, subject to a minimum of Rs. 15. The Madras Committee on Co-operation (1956) has recommended that the scale of fees may be raised to Rs. 5 for every Rs. 1000 or part thereof with a minimum of Rs. 5 and a maximum of Rs. 50.

(6) **Delays due to Paucity of Inspecting or Supervising Staff.** It is essential that the supervisory staff should be strengthened,

as they contribute substantially to minimise delays on the part of the applicants by guiding and advising them and by rendering practical help to agriculturists in getting the required documents and securing proofs and titles. It is learnt that the Co-operative Department in Madras has submitted proposals for fully subsidising a staff of 96 supervisors to the existing Land Mortgage Banks. Again, at present, there is only one Co-operative Sub-Registrar for every three Land Mortgage Banks, but it is suggested that there should be one Co-operative Sub-Registrar for every two Land Mortgage Banks. The Co-operative Department is understood to have made provision on the lines indicated in the Second Five Year Plan. The Committee on Co-operation suggests that the cost of Co-operative Sub-Registrars may be shared both by the primary land mortgage banks and the Central Land Mortgage Bank.

20. **Co-operative Land Mortgage Banks in the Zamindari Areas.** Many tracts in the Zamindari areas have not been accurately surveyed and settled. In view of this, it is difficult to establish Land Mortgage Banks in these areas, as the system of record of rights is defective. A Land Mortgage Bank lending on the security of landed property cannot function effectively when the title to the property offered as security is defective. The Committee on Co-operation in Madras (1940) suggested the adoption of the Torrens system prevalent in France. Under this system the Land Mortgage Bank, after satisfying itself as to the title of the applicant to the land offered in mortgage publishes officially a notice calling upon third parties to show their claims, if any, giving an opportunity to any hidden claimants to make their claims known. If new claimants come forward, the Bank may either contest their claim on behalf of the applicant or reject the application for the loan. Where no claims are presented within the specified time, it is said that no third pary can ever afterwards contest the mortgage lien and the loan applied for is granted.

21. **State-Aid to Co-operative Land Mortgage Banks in Madras.** The concessions and privileges enjoyed by Land Mortgage Banks in Madras are listed below :—

(1) Government has sanctioned three Deputy Registrars and forty Co-operative Sub-Registrars for the benefit of Land Mortgage Banks. The full cost of the Deputy Registrars and their staff and 50 per cent. of the cost of Co-operative Sub-Registrars and their peons are received from the Central Land Mortgage Bank. Government also granted a subsidy of Rs. 20,000 to the Central Land Mortgage Bank during the first two years. The Deputy Registrars and Sub-Registrars inspect the lands offered as security on behalf of the Bank and the Trustee.

(2) Under the provisions of the Madras Land Mortgage Banks Act, the Madras Government has guaranteed the principal and inerest of all the debentures issued prior to the enactment of the Act. It has further guaranteed the principal, besides interest, up to Rs. 700 lakhs of Debentures issued by the Bank after the commencement of the Act, redeemable within a period of 25 years from the date of issue and bearing a rate of interest not exceeding 5% per annum. The other facilities given by Government have popularised the debentures. Thus the debentures issued by the Central Land Mortgage Bank have been declared as "Trustee Securities' under Section 20 of the Indian Trusts Act. Again, the duty chargeable on deeds of transfer under the Indian Stamp Act has been remitted in the case of debentures. Again, local Bodies and Municipalities and Provincial and District Co-operative Central Banks have been permitted to invest a part of their funds in the debentures of the Central Land Mortgage Bank, and these investments are also regarded as cover for their fluid resource requirements. The Statutory Reserve Funds of co-operative institutions are also allowed to be invested in these debentures. As already mentioned, subject to certain conditions, the Government has been giving to the Central Land Mortgage Bank temporary financial accommodation pending the issue of debentures.

(3) Government has also exempted all co-operative land mortgage banks from the payment of fees for the audit of their accounts during the first three years of their inception. The primary land mortgage banks also enjoy a number of privileges and concessions as given below :—

(a) They are charged only half the ordinary fees for the registration of documents and for the issue of encumbrance certificates for loan applications exceeding Rs. 2000. In case of loan applications for Rs. 2000 and below, they are fully remitted.

(b) Village maps, settlement registers and copies of the district gazette sheets in the language of the region where they are working are supplied free of cost.

(c) Each Co-operative Sub-Registrar has got 3 to 5 land mortgage banks in his charge and he inspects them once every month.

(d) Village officers have been instructed to supply the Secretaries of Land Mortgage Banks with information concerning the survey numbers and other details of the properties of members of their Banks and certify to the correctness of the description of the lands given in the applications for loans, together with details in regard to the persons in whose names the lands are registered in the Revenue Estate accounts and the arrears of rent or land revenue.

(e) Primary Land Mortgage Banks are allowed to deposit their sealed cash chests in treasuries for safe custody and supervisors of Land Mortgage Banks are permitted to look into all necessary registers available in the Taluq offices and take extracts therefrom in the presence of responsible revenue officials.

(f) Harijans who are members of co-operative societies including land mortgage banks are exempted from payment of registration fees and fees for encumbrance certificates.

The Co-operative Land Mortgage Banking movement in Madras is, in the opinion of the Committee on Co-operation, Madras, (1940) presents a good example of "a wise combination of State and voluntary effort".

22. **Effect of War on Land Mortgage Banks.** Owing to a rise in the value of produce and value of land in consequence, cultivators were able to pay off their old debts on account of their increased income or in some cases by selling a part of their lands. In addition, there were also advance repayment of loans creating

a problem for the land mortgage banks. The old outstandings were substantially reduced and new business dwindled considerably. This trend was, however, reversed later.

23. **Statistics relating to Central Land Mortgage Bank.** The position of the Central Land Mortgage Bank as on 30th June 1954 is indicated in the subjoined table :—

	(Amounts in lakhs)
(1) No. of Members:	
(a) Individuals.	457
(b) Banks and Societies.	73
(2) Accumulated Funds.	34.73
(3) Deposits and other Borrowings	30.17
(4) Debentures.	389.89
(5) Working Capital.	454.80
(6) Fresh advances.	43.84
(7) Recoveries during the year.	20.90
(8) Outstandings at the close of the year.	329.81
(9) Overdues.	0.02

During the year 1953-54, the Bank issued two series of debentures (48th and 49th) of the value of Rs. 112 lakhs, both bearing interest at 4½% and maturing at the end of 20 years. The subscription to the debentures from various sources as mentioned in the Review of the Reserve Bank of India for 1952-54 is indicated in the subjoined table :—

(Amounts in lakhs)

	48th Series.	49th Series.
(1) Co-operative Institutions.	Rs. 18.78	Rs. 12.07
(2) Reserve Bank.	—	7.06
(3) Insurance Companies..	27.40	5.17
(4) Joint-stock Banks.	3.05	1.30
(5) Individuals.	5.05	5.34
(6) Others.	17.72	9.06
Total	Rs. 72.00	Rs. 40.00

A purposewise analysis of the loans granted by the Primary Land Mortgage Banks during the year 1953-54 shows that the

clearance of prior debts still constitutes the major portion of the total loans as shown below :—

		(Amounts in Lakhs).
(1)	Purchase of land.	Rs. 1.48
(2)	Discharge of prior debts.	39.41
(3)	Land Improvement.	7.18
		48.07

II. History of Co-operative Land Mortgage Banking in Bombay. The question of having a separate organisation of a land mortgage credit in the State of Bombay was firstly discussed at the Gujerat Divisional Conference in 1923. In the year 1926 the Registrar of Co-operative Societies, Bombay, submitted a scheme to the Stete Government for the establishment of land mortgage banks. Three Land Mortgage Banks based on his scheme came to be organized as an experimental measure in 1929 at Dharwar, Broach and Pachora. The Banks at Dhrwar and Broach had an area of operation co-extensive with a revenue district. The third one at Pachora in East Khandesh had an area of operation confined to one taluq. The membership of these Banks was restricted to borrowers only, but prospective borrowers were permitted to be enrolled as members. The Board of Directors of the Bank included (1) a nominee of the Registrar, (2) a nominee of the Bombay Provincial Co-operative Bank and (3) a person elected by the debenture-holders residing within the area of operation of the Bank. The functions of the Board were advisory and were restricted to recommending the loans which were finally sanctioned by the Bombay Provincial Co-operative Bank. The limit of individual loans was fixed at Rs. 10,000. These experimental banks were financed by the Bombay Provincial Co-operative Bank which floated debentures to the extent of Rs. 5 lakhs of which Government purchsed debentures of the value of Rs. 2 lakhs. Government also met the cost for one year of employment of a Land Valuation Officer employed under each of the three Banks. The period following the organization of these Banks was one of severe economic depression and there was keen demand for long-term loans both for debt redemption and for land improvements. In 1933, the Government of Bombay appointed a Committee under the chair-

manship of Mr. K. L. Panjabi, the then Registrar of Co-operative Societies, Bombay, to examine the question of development of land mortgage banking primarily with a view to relieve agricultural indebtedness. This Committee emphasised the need for the organization of a Central Land Mortgage Bank for the Province and recommended the extension of the Co-operative Land Mortgage Banking Movement on well-defined lines. As a result of the recommendations of this Committee, Government permitted the registration of ten more primary banks in the year 1935. Of these three were in Karnatak Division, three in Maharashtra Division, two in Khandesh Division and two in Gujerat Division. Only those areas that were generally immune from famine and scarcity were selected for the establishment of these new primary banks. Government also permitted in the year 1935 the registration of the Bombay Provincial Co-operative Land Mortgage Bank. Its first President was Sir Lallubhai Samaldas, the founder of the Bombay Provincial Co-operative Bank. With the introduction of the debt relief legislation in the Province, the need for an increase in the number of banks was felt, and four more banks were established. Of these two were in the Karnatak Division and two were in the Districts of Thana and Kolaba. Thus there were at the close of 1940 seventeen primary land mortgage banks in all. Their existing liabilities to the Bombay Provincial Co-operative Bank were gradually transferred to the Bombay Provincial Co-operative Land Mortgage Bank.

(1) **Membership.** The membership of a primary bank is of two classes, viz. 'A' and 'B.' Both borrowing and non-borrowing members fall in 'A' class. A borrowing member is admitted to membership on payment of full value of ten shares of Rs. 5 each before he can exercise the rights of a member. Again, borrowing and non-borrowing members form separate constituencies for the election of the Board of Directors. 'B' class membership is intended for co-parceners and carries no right of vote or participation in management. A 'B' class member pays a small entrance fee or a nominal share capital not exceeding Re. 1 in each case.

2. **Objects.** The objects of a primary land mortgage bank as provided in the bye-laws are :—

(a) To advance long-term loans to members on the security of landed property for the redemption of mortgaged lands and houses and liquidation of old debts of agriculturists, the improvement of agricultural land and for the adoption of improved methods of cultivation, the installation or purchase of costly plant and machinery and the purchase of a piece of land for the purpose of improvement or more economic cultivation of the existing holdings or for bringing under cultivation cultivable waste lands or fallow lands.

(b) To encourage thrift, self-help and mutual aid among members in order to promote their economic interests.

(3) **Borrowings.** The borrowing capactiy of a primary land mortgage bank is limited to twenty times its paid-up share capital and the reserve fund and to the total amount of loans outstanding against the security of mortgages given by the Bank. A primary land mortgage bank cannot raise funds by way of loans or deposits, except with the permission of the Bombay Provincial Land Mortgage Bank.

(4) **Board of Directors.** The Board of Directors of a primary land mortgage bank consists of persons not exceeding seven. Two of these are elected by 'A' class borrowing members who are indebted to the Bank. The 'A' class non-borrowing members elect one Director, if their number is less than fifty or two Directors if their number is fifty or more. One Director is nominated by the Registrar, another by the Bombay Provincial Land Mortgage Bank and the third by the Central Financing Agency within whose jurisdiction the primary bank is situated. Again, for the purpose of election of the representatives of the borrowing members, the area of operation of the bank is divided into two regional constituencies and a member residing in each such constituency is elected on the Board. This constitution of the Board is meant to prevent representatives of borrowing members from having a predominant voice in the management of the Bank. According to the bye-laws of a primary land mortage bank, the first Board of Directors is nominated by the Registrar of Co-operative Societies and the nominated Board holds office for a period of three years. The Board of Directors has the power to make

rules subject to the approval of the Registrar for periodical assessment of market value and earning capacity of lands offered in mortgage, for investigation of legal title of the borrower to such lands, for the recovery of valuation and other fees and for the conduct of the business of the bank in general. Other important functions of the Board are to consider and recommend applications for loans and for extensions, to recover the loans and to enquire into and take action in cases of default and to supervise the untilisation of loans.

(5) **Loan Operations of a Primary Bank.** Loans are given mostly for the discharge of prior debts of members for a period not exceeding 20 years and for a short period if the object is land improvement. When the loan application is recommended by the Director of a Primary Land Mortgage Bank, it is finally sanctioned by the Executive Committee of the Bombay Provincial Co-operative Bank. Every application for a loan in excess of Rs. 1000 was in the earlier stages being scrutinized by the Assistant Registrar, Land Mortgage Banks, and later this condition was relaxed and well-managed banks were authorised to recommend loans directly up to Rs. 2000 to the Provincial Land Mortgage Bank. Applications for loans in excess of Rs. 5000 were also scrutinized and recommended by the Divisional Assistant Registrar. Every loan secured on the first mortgage with possession of landed property, the value of which is not less than twice the amount of the loan. The applicant's title to the lands offered as security is required to be certified by the Legal Adviser of the Bank. Applications for loans for land improvement or installation of costly machinery are forwarded to Experts maintained by the Central Land Mortgage Bank, and loans are sanctioned if the estimates of costs and the profitability of the schemes are certified by them. The maximum limit of individual loan is fixed at Rs. 10,000, which can be exceeded in special cases with the approval of the Registrar. Originally, the rate of interest on loans was $6\frac{1}{2}\%$ which was later increased to $6\frac{1}{2}\%$ after the outbreak of the World War II, but later remained unchanged at 6 per cent. Out of the net profits of the primary land mortgage bank, 50 per cent is required to be credited to the Statutory Reserve Fund and out of the balance a dividend not exceeding $6\frac{1}{4}\%$ can be paid to the shareholders.

III. Collection of Sale and Rental Statistics. The Co-operative Department in the Bombay State has issued instructions to the Land Valuation Officers in regard to the way in which sale and rental statistics should be collected for the purpose of valuation of land and what precautions could be taken in the process. These instructions are briefly mentioned below :—

(1) **Valuation of Lands :** (a) **Sales Statistics.** (1) For purpose of valuation, the Land Valuation Officer should take into consideration, only broad divisions of lands mentioned below :—

(a) Jirayat lands, (b) Rice lands, (c) Bagayat lands sub-divided into (i) Patasthal and (ii) Motasthal lands.

(2) Sale statistics should be collected for different kinds of lands in each village for the years mentioned hereafter in order to arrive at a safe and reliable standard which will be based on the average obtained from the figures for 12 different years, viz., 1934 to 1945.

(2a) It is likely that in any one or two or all the years specified there may be no sales. In order to estimate the trend of the land values and also to help as a guide to valuation it would be necessary to take notice of the instances of sales in the intervening years and tabulate the requisite statistics therefrom.

(3) Awards in cases of acquisition are best piece of evidence of market values and should be considered as proper guides. The valuation in the award under the Land Acquisition Act should, for the purpose of ascertaining market values, be reduced to deduct the 15 per cent allowed in addition to the market value under sub-section (2) of section 23 of the Land Acquisition Act. If the amount awarded is X, the proper market value will be $\frac{100 \times X}{115}$.

(4) Special scrutiny may be made in the following transactions before they are accepted as giving reliable data for preparing sales statistics for purposes of arriving at the average sale prices :—

(a) Sales by widows.

(b) Sale transactions in which prices of lands are obviously shown less in order to avoid stamp-duty.

(c) Sales made in favour of creditors by debtors in satisfaction of their debts.

(d) Sale of lands including the value of the buildings, trees, standing crops on the lands.

(e) Transactions where obviously fancy prices are mentioned in documents.

(f) Any other transactions where the prices mentioned cannot be taken as genuine prices of lands, for one reason or the other.

(5) Genuine sale statistics only need be taken into consideration and in gathering the sales statistics, care shouuld be taken to see that the following transactions are excluded:—

(a) "Vishwas Kharedi" transactions or mortgage with conditional sales.

(b) Sales for nominal value between relatives.

(c) Sales for nominal value to temples.

(d) Sales in satisfaction of debts to a Sawkar.

(e) Sales of small pieces of agricultural land in the vicinity of residential areas.

(f) Benami transactions or mere transfer of property without any corresponding money consideration being acturally paid.

(6) In determining the market prices of lands on an average basis the volume of transactions and the genesal average trend need be taken into consideration.

Valuation of Lands : (b) Rental Statistics.

1. Just as under sales statistics, here also, it would be advisable to collect rental statistics for the intervening years, for purposes of general comparison and chek as to the normality of the figures :—

(a) In gathering rental statistics, from village records, care should be taken to see that those relating to genuine transactions only are collected and that where rents in kind only are in vogue, they are converted into money values on the basis of prices prevailing for those years.

Where the lease is for some years and the rent agreed is in kind, the average of monetary values, based on the prices prevailing in each year of lease would be a more reliable guide to valuation.

(b) In the following cases, care should be taken to see that a correct or reasonable amount of rent only is taken for purpose of statistics :—

(i) Rent notes wherein the amount mentioned is subject to an understanding that some concession or remission will be granted on failure of crops.

(ii) Rent notes passed by debtors in favour of ecrditors in cases of possessory mortgages wherein the amount mentioned as rent may represent not only interest on the amount but also a part of the principal also.

(iii) In any other transactions where the correct amount is vitiated by any other consideration than those mentioned above.

(1) Rent paid by tenants for lands which belong to them but which they have mortgaged with possession or sold and taken back on lease.

(2) Rents due under leases between relatives, the real object of which is to provide maintenance for dependents.

(3) Rents due in respect of deteriorated or waste lands which have to be reclaimed.

(4) Rents which are either too low, as they are coupled with service, or too high, the higher rent being paid on charitable grounds.

2. For purposes of collecting rental statistics, the land valuation officer would be well advised to take only the net rent into consideration. The land revenue and local fund or any other charge may be deducted from the gross rents in order to arrive at the net rents.

3. The value of lands may be calculated on the basis of average net rent being capitalized at 4-5 per cent in the case of jirayat lands in normal areas. In precarious areas, the rate may be taken as 3 % or even less, at 2½ % according to the nature

of the tracts. In the case of Bagayat lands, the rate of capitalisation may be taken at 6–7% as the case may be.

Note.—It may be noted that the rate of capitalisation is bound up with the state of money market, interest rates, and market values of gilt-edged securities at a particular given rate.

Repaying Capacity.

Introduction.—Though valuation of lands would ensure ultimate repayment of loan, it is the correct assessment of the repaying capacity that can ensure punctual repayment of annual instalments fixed under the award. Though no rigid rules can be laid down for assessing the repaying capacity, the following considerations should weigh with the Land Valuation Officer in giving his estimates.

2. (a) **Agricultural Income.**—(i) Permanent source of income from lands owned by the borrower should be taken into account.

(ii) Income derived from lands taken on lease may be taken only to the extent to which the agriculturist taking such land on lease would have derived an income by his manual labour elsewhere, had he not taken such lands on lease and by hire of bullocks which would have been let for hire elsewhere, if not engaged in cultivating the lands in question.

(b) **Income from sources other than agriculture.**—Income from subsidiary occupations such as carting on hire or sale of milk or other dairy produce or poultry produce can be taken as reliable provided the Land Valuation Officer is satisfied in all cases that such a source of income is likely to last at least for the period of the currency of the award. These items will naturally require close scrutiny.

(c) Income from service which confers no security of tenure and which exceeds the limits allowed under the Bombay Agricultural Debtors Relief Act (vide Section 2 (6) (iv)) should not be regarded as a source of income for the purpose of repaying capacity.

(d) In cases where the repaying capacity is partly dependent on manual labour or income from other sources classed as non-

agricultural, such income for assessing repaying capacity should be taken with due caution as there is no fixity of account of such income during the period of the instalments under the award.

3. **Net annual income.**—The net annual income of the debtor under the provisions of the Bombay Agricultural Debtors' Relief Act shall mean the balance of his annual income after deducting such sum as is necessary for the maintenance of the debtor and his dependents and the sum due from the debtor to repay his debts due to Government and local authorities and to pay off the loan borrowed for the purpose of financing of crops.

4. **Expenses how fixed.**—The maximum provision for expenses on account of maintenance of family expenditure in case of an adult or a minor member of an agriculturist family may be fixed for different regions, taking into consideration the standard of living for different classes of agriculturists such as aboriginal tribes, scheduled classes, Kunbis and Dhangars, Patidars or well-to-do agriculturists.

5. **Standard cost of living.** The standard cost of living arrived at by the Land Valution Officer may be verified from the estimates given by the local revenue authorities before making them final.

6. **Family budget.**—An example of a family budget of an average agriculturist's family is given below showing which items of revenue or cost should be taken into account in arriving at net income for the purpose of the Bombay Agricultural Debtors Relief Act:—

Income Side

(1) Value of gross produce including grass, fodder, chaff, etc.

(2) Value of vegetables, if any, raised.

(3) Value of fruits, flowers in the case of garden lands.

(4) Hire of animals, if any, let out on hire.

(5) Income derived from other sources, such as carting, sale of dairy, or poultry produce, or other personal income to the extent allowed.

Expenditure Side

(1) Land revenue to Government.
(2) Irrigation cess.
(3) Feed and maintenance of bullocks.
(4) Seed to the extent of cash purchases made.
(6) Casual or hired labour for various purposes such as sowing, weeding, hiring, ploughing, watering, etc.
(7) Wages of permanent servants maintained for the purpose of cultivation.
(8) Purchase of implements only annual cost should be taken if these implements are purchased.
(9) Hire of implements or their repairs.
(10) Depreciation of both deadstock and livestock.
(11) Repairs to bunds or tals.
(12) Cost of harvesting operations, if any.
(13) Transport charges for marketing produce, if any.
(14) Instalments of debts due to Government or local bodies or instalments of crop finance or interest thereon.
(15) Charges of maintenance of the family and its dependents subject to the maximum standard cost of living as made by the Land Valuation Officer per adult and minor member.
(15-A) Such sum as may be considered necessary for the payment of the liability, if any, imposed on the debtor under a decree, or order for maintenance passed by a competent court.
(16) An annual provision for extraordinary expenses that are likely to accrue such as litigation, births and deaths in the family, education and marriage of minors or repairs to the property a rough estimate only need be made.

The balance would then represent the net income available to pay the instalments fixed.

IV. **Operations of Primary Land Mortgage Banks**

The position of the primary land mortgage banks is indicated in the sub-joined table for a period of five years ending 30th June 1954.

	1938-39.	1945-46.	1950.	1953.	1954.
			(Amounts in lakhs.)		
(1) No. of Banks.	14	16	19	19	18
(2) Membership.	7.840	17,353	22,509	28,040	27,280
(3) Owned Funds.	2.78	5.14	10.14	18.88	19.02
(4) Deposits and Borrowings.	26.33	28.31	37.40	68.18	73.33
(5) Working Capital	24.31	33.45	56.30	95.03	100.[5
(6) Fresh Advances	8.23	3.24	9.56	12.76	11.84
(7) Recoveries.	1.81	3.29	4.59	5.37	7.42
(8) Loan Outstandings.	22.30	31.43	49.25	81.11	85.44
(9) Overdues.	0.87	1.16	0.99	6.30	6.78

V. The Bombay Provincial Co-operative Land Mortgage Bank.

The Bombay Provincial Co-operative Land Mortgage Bank was established in 1935 as a result of the recommendations of the Punjabi Committee. It functions as a Central Financing Agency for the provision of long-term agricultural finance to primaries and to supervise their working. The Bank has been authorised to raise long-term funds by floating debentures on terms and conditions approved by the Government. They are issued on the security of the assets of the Bank and of mortgages of landed properties assigned to the Bank by primary banks. In areas where primary land mortgage banks do not exist, loans are either given direct or through the central financing agencies which function as the agencies of the Provincial Land Mortgage Bank. Membership of the Bank is open to individuals, co-operative societies and primary land mortgage banks in the Province. At the close of 1954, 820 individuals and 120 societies including 18 primary land mortgage banks were memberss. The Bank had issued in all nine series of debentures and the amount outstanding under all series was Rs. 141.31 lakhs. In the earlier years of its working great difficulties were experienced due to the effects of the World War II. Owing to the considerable spurt in agricultural prices, the demand for long-term loans declined, and the land mortgage banks were faced with the problem of advance repayments. Thus there was a shrinkage in the volume of business handled by land.

mortgage banks. With the introdcution of Agricultural Debtors Relief Acts in several Provinces, Debt Adjust Boards came to be established and the debts of agriculturists scaled down and adjusted to the repaying capacity of the debtors. The debts so scaled down could be repaid in easy annual instalments awarded. This reduced the necessity for resort to the land mortgage banks for long-term finance for the purpose of redeeming prior debts, as the land mortgage banks were only issuing loans for clearance of prior debts. In the Bombay Province, with the introduction of the B. A. D. R. Act and its application to several parts of the Province, no land mortgage bank could entertain applications for debt redemption until the adjustment board made its award thereon. Thus the land mortgage banks were starved of business. Under the Act, the normal method of repayment of adjusted debts was by annual instalments based on the net annual income of the debtor. The special method of adjustment of debts through the land mortgage banks and their repayment in bonds issued by the Provincial Land Mortgage Bank was provided in Section 55 of the Act and it was on a voluntary basis. That system did not appeal to the creditors, as they had in some cases to agree to a further scaling down of the debts to a sum not exceeding half the value of the immovable property of the debtor, particularly as the bonds issued to them were not immediately redeemable. On representation being made to Government that the existing land mortgage banks should take over the awards in all cases where the total amount awarded was 50 per cent or less than the value of the debtor's immoveable property and that the creditor should be compelled to receive payment from the land mortgage banks, so that the adjusted debtors may be indebted to the land mortgage banks, for his long-term requirements, instead of several creditors after adujstment, the law was amended accordingly. The land mortgage banks also agreed to take over all awards where the total amount awarded was 50 per cent or less of the value of the debtor's peroperty or where the creditors agreed to scale down the debts to a sum not exceeding half the value of the immoveable property of the debtor, and to pay at the option of the creditors either in cash or in bonds. Government accordingly enacted a new Section 33 under which it was made obligatory on the land mortgage banks to accommodate all adjusted debtors

in all cases where the two conditions mentioned above were fulfilled. The idea behind the compulsory provision in the Act was to increase the business of the banks but in actual practice the effect was exactly the opposite due to several reasons. In the first place, no minimum amount was prescribed which the boards could award and which the land mortgage banks would be compelled to accept, with the result that the Bank had to finance any small amount against the adjusted debtor throughout the length and breadht of the Province. The cost of collection fo such debts was more than the amount of interest realised thereon.

Secondly, the business attracted under the compulsory provisions of the Act was not substantial, as out of the total outstandings of Rs. 28.01 lakhs at the end of 1947-48, loans under the B.A.D.R. Act amounted to Rs. 34,000 only.

Thirdly, under Section 33 of the B.A.D.R. Act the Bank was entitled to recover the amount due to it from the debtor at a rate of interest not exceeding 6% as the Provincial Government might notify from time to time. The Provincial Government had notified such a rate to be 4% only. Thus the Banks were borrowing at a higher rate in order to lend to the adjusted debtor at a lower rate. This position was later rectified when it was specifically brought to the notice of Government.

Fourthly, the adjustment boards had created charges for the debt due against immoveable property which had no clear marketable title, e.g. new tenure lands or Ekasli lands. The Nanawati Committee had observed in this connection : "We have noticed that the provisions of Section 55 (amended Section 33) do not provide for consultation with the land mrtgage banks before passing of the awards and that they are under a statutory obligation to pay up all the awards passed under the said Section. These provisions, in our opinion, are financially unsound and we recommend that the land mortgage banks should have full liberty in selection or rejection of cases which are passed on to them." In view of these handicaps and the difficulties arising from lack of liberty in selection or rejection of cases, representations were again made to Government and Government, after consideration of the question, again amended Section 33 of the Act during 1950, so as to give the banks an opportunity to pick

and choose cases which were passed on to them before making an award under the Act. In other words, the banks were given the option to reject cases where they felt that the recovery would be difficult or doubtful later. Thus the marriage of debt legislation with the land mortgage banks in the Province, though conceived at the time in their best interests, proved sterile and in the early years of its working was one of the main causes of their halting and stunted growth. Again, it may be noted that the land reform legislation in Bombay has further hampered the progress of land mortgage banks inasmuch as no one whose name was not on the priority list under Section 64 of the Bombay Tenancy and Agricultural Lands Act could purchase agricultural land in possession of a protected tenant in the execution of a decree of a civil court or an award under the Co-operative Societies Act. The land mortgage bank was certainly not one which was accorded a priority under the aforesaid section, and hence it could not sell a defaulting borrower's land to any one who did not not enjoy such priority nor could it itself purchase the land in execution of the award. The position was later rectified by including a co-operative land mortgage bank along with a co-operative farming society in the priority list. Further, the Bombay Tenancy and Agricultural Lands Act, 1948, has been recently amended so as to make the tiller the owner of the soil with effect from 1st April 1957, free from all encumbrances thereon. Government intended appointing Tribunals in each taluka or at some of the homogenous villages. The Tribunals thus appointed were expected to issue notices to landlords and tenants and the price would be fixed. A tenant other than a permanent tenant has under the amended Act a right to pay the price of the land of which he becomes the owner if he pays twelve annual instalments which may be extended to sixteen. If, however, we take only one year for Government to appoint tribunals, that would issue notices and fix purchase prices and other sixteen years for making full payment of price, all the tenants in the Bombay State would become full owners by 1974. Within this intervening period from 1947 and 1974 the tenant is deemed to be the owner of the land. The position is that since the landlord has not been fully paid off, he continues to be the owner *de jure*, while the tenant is the owner *de facto*. Thus the name of the landlord cannot

be removed from the land records, and the tenant also will remain a tenant until 1974, and the land-holding also is going to be in future subjected to a ceiling and no person who is not an agriculturist can purchase any land and an agriculturist can purchase land only up to the limit of the ceiling fixed. Thus it will be apparent that these provisions have affected the working of land mortgage banks in the State and they have rightly discontinued making advances to persons other than agriculturists tilling their own lands. Again, the valuation of the land adopted under the Act is 120 times the assessment and thus only small loans limited to 50 per cent of their value, i.e. 60 times the assessment, are permissiable to agriculturists who own and cultivate their own lands. In the past, the Provincial Land Mortgage Bank gave loans to agriculturists who were either landlords or who created tenancy rights subsequently. The loan outstandings of the Provincial Land Mortgage Bank at the close of 1956 were Rs. 45.15 lakhs against the security of 87,720 acres. Out of these holdings no less than 15,269 acres were in possession of tenants. Thus 15,269 acres would be purchased by tenants at prices to be fixed by the Revenue Tribunals to be appointed for the purpose by Government. Since the purchase price fixed under the Act varies from 20 to 200 times the assessment, it is difficult to imagine what prices will be fixed. What losses the Bank will be called upon to shoulder on account of fixation of artificial value of land statutorily, is not easy to ascertain, but it is estimated that such losses might come to about Rs. 3 lakhs. This is because the Government has introduced a radical measure of land reform without fully realizing what immense harm it has done to the credit structure. Thus the future prospects of co-operative land mortgage banking in the State have been rendered bleak. The Rural Credit Survey Report has suggested that the tenure and tenancy laws should be reviewed by the State Government with a view to eliminating "such feature in those laws as without being essential to policy are hindrances to the development of a simple and effective system of land mortgage banking and that the law enacted should be such that the title passed is as secure and clear as possible." But the Land Reform legislation in Bombay has unfortunately taken no notice of this observation.

VI. **Repayment of Debentures.** Before the debentures of a land mortgage bank could be declared as trustee securities, the Government of India insisted upon the guarantee of the principal and interest of the debentures being given by the Provincial Governments. On the expert advice of the Reserve Bank of India, before a guarantee is extended to the debentures of a land mortgage bank, it is necessary that the Bank should provide for building up for each series of debentures a separate sinking fund into which must be paid annually a sum of money actuarilly calculated with a reference to the date of improvement which would produce at the end of the period for which the debentures are issued, a sum sufficient to amortize the debentures. The sums so held are required to be invested in Government or other Trustee Securities. The sinking fund to be built up by a Provincial Land Mortgage Bank is rather a misnomer. In the case of industrial concerns requiring heavy outlay for financing construction of building or installation of machinery, money is raised by floating debentures and a Sinking Fund is created entirely out of profits in order to be able to retire the debentures on their maturity. The assets financed may be of a wasting nature but they appear at cost on the face of the balance sheet throughout the pendency of debentures. On maturity the debentures are paid out of the accumulated sinking fund investments and then the sinking fund becomes a sort of reserve to be adjusted against the value of the assets financed. In the case of a land mortgage bank, however, the position is somewhat different. The funds obtained by floating debentures are utilised in granting loans to members of primary land mortgage banks, which are being repaid each year and a part of the recoveries equal to the annual contribution to be made to the sinking fund is earmarked for redemption of debentures and invested outside the business. Each year the investments under this head are increased by an amount equal to the contribution to be made to the funds annually and the amount of the interest earned on the investments during the year. Though in a particular year the investments relating to the sinking fund may be in excess of or may fall short of recoveries on account of principal the sinking fund investments of each series of debentures in the case of a land mortgage bank come entirely out of repayments of principal. Technically speaking, therefore,

there is no sinking fund as such. That is why it is not shown on the liability side of the balance sheet, but only the investments equal to what the sinking fund should be at the end of each year are earmarked for redemption of debentures. The effect of showing interest earned on sinking fund investments separately on the liabilities side of the balance sheet and not crediting to P. & L. Account would be merely to create an additional reserve. Under the equated system of instalments of repayment of loans issued to members of a land mortgage bank, recoveries on account of interest would, in the earlier years, be much more than those on account of principal, and if the interest earned on S.F. investments is not taken to P. & L. Account, the only source of income left to the Bank to pay interest on debentures and to meet the cost of management would be the interest on loans only, which would go on decreasing progressively. Suppose that a series of debentures for Rs. 10 lakhs is floated bearing interest at 3 per cent with 30 years' maturity and the money so obtained is invested in loans at $4\frac{1}{2}\%$ repayable within a period of 20 years. Let us further suppose that the rate of betterment is $2\frac{1}{2}\%$ (vide table enclosed at the end of this paragraph below). It will be clear from the table that if interest on S. F. investments is not taken to P. & L. Account, the interest on loans alone will not be sufficient even to pay interest on debentures from the tenth year, much less to meet the expenses of management. This would certainly affect adversely the credit of a Bank and its ability to float debentures and the advantages of conserving the interest on S. F. investments, if any, would be more than offset. If the Bank is to avoid showing losses, it would have to credit P. & L. Account the interest that is earned on S. F. investments from year to year. This credit of interest on S. F. investments gives rise to some problems. In the earlier years, larger portion of the funds obtained from the issue of debentures of any particular series is invested in loans, while S.F. investments are much smaller, and the position becomes just the reverse in the later years, as loans carrying higher rates of interest than the S. F. investments; income in the earlier years would be much more than income in the later years. But interest charges payable on debentures would be fixed and remain constant throughout the pendency of debentures. The balance available from interest income from

loans and S.F. investments after providing for interest on debentures would show progressive decline, with the result that at the end of the 18th year not only would there be no balance available on this account but the income from the loan and the S. F. investments would fall short of even interest charges on debentures. Large profits disclosed in the beginning are also likely to lead to the temptation for higher dividends and a liberal expansion of expenditure resulting in the frittering away of funds. These difficulties can be overcome by creating a special fund called 'Income Adjustment Fund' from the profits of the earlier years, so that it may be available for being drawn upon in the later years. The creation of such a Fund might be made obligatory under the Trust Deed. The rate on which the Fund should be built would no doubt depend on the difference in the rate of interest payable on debentures and the rate of betterment and can be worked out on a scientific basis.

Table I

Income and Expenditure Position of the Bank if interest earned on Sinking Fund Investments is not taken to profit.

Year.	Interest earened on loans.	Interest payable on debentures	Balance for expenses.	Interest earned on Sinking Fund.
1	45,000	30,000	15,000	—
2	43,560	30,000	13,560	980
3	42,030	30,000	12,030	1,980
4	40,500	30,000	10,500	3,010
5	38,790	30,000	8,790	4,065
6	37,080	30,000	7,080	5,140
7	35,280	30,000	5.280	6,250
8	33,480	30,000	3,480	7,385
9	31,500	30,000	1,500	8,550
10	29,430	30,000	590	9.740
11	27,360	30,000	2,640	10,960

and so on.

Table II

Balance left for expenses after payment of interest on debentures if interest on sinking fund investments is taken to revenue.

No. of Years	Interest earned on loans	Interest-earned on sinking fund investment	Total income	Interest payable on debentures	Balance
1	45,000	—	45,000	30,000	15,000
2	43,560	980	44,540	30,000	14,540
3	42,030	1,980	44,010	30,000	14,080
4	40,500	3,010	43,510	30,000	13,510
5	38,790	4,065	42,855	30,000	12,855
6	37,080	5,140	42,220	30,000	12,220
7	35,280	6,250	41,530	30,000	11,530
8	33,480	7,385	40,865	30,000	10,865
9	31,500	8,550	40,050	30,000	10,050
10	29,430	9,740	39,170	30,000	9.170
11	27,360	10,960	38,320	30,000	8,320
and so on.					

A simple system of amortization of debentures is that which is adopted in Madras with the permission of the State Government. It is called a 'Fixed Instalment System' under which a Debenture Redemption Fund is built up by paying into it every year out of collections of loans a sum equal to the amount of each series of debentures divided by the number of years for which the particular series has been issued. For example, if a series of debentures had been floated for Rs. 10 lakhs redeemable on the expiry of ten years from the date of issue, the Bank should pay every year one lakh into the Debenture Redemption Fund, so that at the end of the tenth year Rs. 10 lakhs would be available to retire the debentures. The amounts in the sinking fund will be invested in Government and other Trustee Securities. The sinking fund investments so held will be valued annually and any deficit noticed is recouped out of the general revenues.

The subjoined table indicates the position of the Bombay Provincial Land Mortgage Bank as on 30th June 1954.

(1) No. of members :	
(a) Individuals.	820
(b) No. of Societies.	20
	(figures in lakhs)
(2) Owned Funds.	11.48
(3) Deposits and other borrowings.	0.97
(4) Debentures.	141.32
(5) Working Capital.	153.76
(6) Fresh advances.	12.50
(7) Recoveries.	7.54
(8) Loan outstandings at the close of the year	83.20
(9) Overdues.	3.07

The following is the purpose-wise analysis of the loans granted by the Bank during two years 1953 and 1954.

Purposes	(Amounts in lakhs)	
	1952-53.	1953-54.
(1) Land Improvement.	3.94	6.00
(2) Purchase of land.	0.60	2.29
(3) Redemption of Old Debts.	7.51	3.36
(4) Loans to Housing Societies.	0.40	—
(5) Joint Purposes.	1.06	0.45
Rs.	13.51	12.50

The above table indicates that during 1952-53 loans for repayment of prior debts constituted more than 50 per cent of the total loans while during the following year the percentage was less than 30. A noteworthy feature was that nearly 66% of the loans were either for purchase of lands or for land improvement. During 1953-54 the Bank received a subsidy from the State Government to the extent of the difference between interest on loans for land improvement made by it calculated at its lending rate and the interest as calculated at the concessional rate prescribed from time to time by the State Government for such loans. It further lent the services of Land Valuation Officers attached to Civil Courts.

VII. Difficulties of Land Mortgage Banks in the Bombay State

The Banks suffer from legal and other difficulties, as already mentioned, which require to be overcome. The special privileges and rights conferred on protected tenants and lease-holders under the Bombay Tenancy and Agricultural Lands Act, 1948, make loans to absentee landlords risky, unless certain precautions are taken which it is difficult for land mortgage banks to implement. This precludes them from advancing loans to either the tenants or the absentee landlords, and this has come in the way of the progress of land improvements.

(b) The B. A. D. R. Act, 1939, has imposed restrictions on the alienation of land belonging to a debtor who is a party to proceedings under the Act. It is necessary, therefore, to obtain a certificate from the Court concerned, whether an applicant was or was not a party to the proceedings. Such certificates are not easily obtained and take a long time.

(c) The administration of the Evacuee Property Act, 1950, checks advances to Muslims. In the absence of rules under the Act, the Custodian of Evacuee Property is unable to issue a certificate which is necessary before any loan can be made.

VIII. Co-operative Land Mortgage Banking in other States or Provinces

(1) **Andhra**. The Andhra Central Land Mortgage Bank was registered in 1953 as a result of the bifurcation of the Madras Co-operative Central Land Mortgage Bank. The division of assets and liabilities of the composite bank among the resultant banks was as follows:—

The 35 primary land mortgage banks and individual shareholders in the Andhra State area who were members of the composite bank ceased to be its members and became members of the Andhra Central Co-operative Land Mortgage Bank. The statutory reserve funds and other reserves together with common funds were divided in the proportion of 44.9 per cent to the Andhra Central Co-operative Land Mortgage Bank, 54.6 per cent to the residuary Madras Central Co-operative Land Mortgage Bank and 5% to the Mysore Central Co-operative Land Mortgage Bank. The deposits

belonging to primary land mortgage banks were allotted to the respective central land mortgage bank. The liability in respect of debentures was also divided in proportion to the loans originally issued in each of the areas. Other liabilities were divided in proportion to the loan business in each area. As regards the division of assets, all loans issued and outstanding against the primary land mortgage banks in the respective areas were allotted to the respective central land mortgage banks. The sinking fund investments were divided on the basis of the collections in each of the areas under each series of the debenture loans, while investments in Government paper on account of the reserves were divided in the proportion of 44.9 per cent, 54 per cent and 0.5 per cent to the Andhra, Residuary Madras and Mysore Co-operative Central Land Mortgage Banks. Other general investments were also divided in the same proportion (Vide Review of the Co-operative Movement in India by the Reserve Bank, 1952-54, page 56.) At the end of 1953-54, the Central Land Mortgage Bank had a membership of 56 primary land mortgage banks and 71 individuals and owned funds to the extent of Rs. 28.56 lakhs. Its working capital stood at Rs. 379.8 lakhs. of which debentures alone accounted for Rs. 330.94 lakhs. Fresh loans amounted to Rs. 43.33 lakhs for different purposes as shown below:—

(1) Land improvement	15.71	lakhs
(2) Purchase of land,	4.31	,,
(3) Discharge of prior debts.	23.31	,,
Total...	43.33	

During the year 1953-54, the Central Land Mortgage Bank floated its First Series of Debentures for Rs. 60 lakhs at Rs. 99.8 at $4\frac{1}{2}\%$ with a maturity of 20 years. The Insurance Companies and the Government of India and the Reserve Bank subscribed to Rs. 35.97 lakhs out of this issue. The Bank made vigorous attempts to increase the proportion of loans given for productive purposes. But the absence of a proper agency for the effective supervision over the use of loans, absence of proper legislation affording necessary protection to land mortgage banks in regard to the title to the lands mortgaged to them, strong preference of the borrowers for clearance of prior debts and their poor

repaying capacity, are some of the reasons, why loans for productive purposes could not be made on a large scale. There were 56 primary land mortgage banks in the state at the end of 1953,having a membership of 80169 individuals and a working capital of Rs. 302.20.lakhs. Fresh finance granted amounted to Rs. 47.89 lakhs. The State Government agreed to grant subsides to the Bank to enable it to give loans to borrowers in Rayalseema at a cheaper rate of interest, i. e. at 1¼ % less than the usual rate. It also undrtook to bear 50 per cent of the expenditure incurred on the staff of Sub-Registrars for inspecting the primary land mortgage banks. Other concessions and privileges granted were on the lines of those given in the Composite State of Madras.

(2) **Mysore.** Mysore is another province in India where co-operative land mortgage banking has made considerable headway. There were at the end of 1953-54 82 banks in the State affiliated to the Central Land Mortgage Bank, having a membership of 42278 individuals. Their owned funds and deposits amounted to Rs. 11.44 lakhs and Rs. 110.76 lakhs respectively. Their total working capital stood at Rs. 122. 20 lakhs. The Mysore Central Co-operative Land Mortgage Bank had, at the end of 1953-54, owned funds to the extent of Rs. 10.54 lakhs and a working capital amounting to Rs. 134.44 lakhs. Debentures so far issued were outstanding at Rs. 113.90 lakhs at the end of 1954. Loan operations of the Bank for a period of two years are given in the following table :—

(Amounts in lakhs)

Year.	Fresh loans	Recoveries	Outstand-ings	Overdues
	Rs.	Rs.	Rs.	Rs.
1952-53	18.88	4.64	101.34	1.00
1953-54	16.70	5.76	112.28	1.20

Most of these loans were granted for redemption of debt.

(3) **Madhya Pradesh**—There is no separate and independent central land mortgage bank in the state. The State Co-operative Bank has a separate Land Mortgage Bank Section, which issues loans to primary land mortgage banks, wherever they exist, and through central co-operative banks acting as its agents in areas not served by any primary land mortgage bank. The Bank had-

deposits and other borrowings to the extent of Rs. 19.57 lakhs and debentures so far issued were outstanding at Rs. 38 lakhs. Fresh advances were for Rs. 11.06 lakhs and total outstandings were Rs. 44.43 lakhs of which 0.92 lakhs were overdue. The Bank charged interest at 4½ % to 5 % on the loans issued by it. The following table indicates the purposewise analysis of the loans for a period of two years.

	1952-53.	1953-54.
	(Figures in lakhs)	
(1) Land Improvement.	1.07	1.22
(2) Purchase of lands.	0.31	0.80
(3) Discharge of prior debts.	3.97	9.04
	Rs. 7.35	Rs. 11.06

It will be seen from the above figures that loans granted for discharge of prior debts accounted for a major portion of the total loans. Loans for land improvement and purchase of land were less than 20 % of the total. There were only 25 primary land mortgage banks in the State with a membership of 16759 and working capital of Rs. 49.20 lakhs. Fresh loans are issued to the extent of Rs. 12.47 lakhs and total outstandings stood at Rs. 45.51 lakhs, of which Rs. 1.54 lakhs were overdue.

(4) **Orissa.** In Orissa the Central Land Mortgage Bank finances the agriculturists directly, there being no primary land mortgage banks. Though the jurisdiction of the Bank extends over the entire area of the State, its operations are restricted to a few districts. Even in these districts its operations are restricted to canal-fed areas only. At the end of 1953-54, the Bank had a membership of 5815 individuals and its owned fund stood at 2.01 lakhs. Debentures issued were outstanding at Rs. 10 lakhs and the working capital amounted to Rs. 16.50 lakhs. The loan operations on the Bank for a period of two years are given in the following statement :—

(Amounts in lakhs)

Year.	Fresh Advances.	Recoveries.	Outstandings.	Overdues
1952-53	13.51	4.61	78.24	3.57
1953-54	12.50	7.54	83.20	3.07

Loans are given only for debt redemption, as the agriculturists are reported to be reluctant to take loans for production purposes since they cannot satisfy the rules and regulations governing loans for productive purposes. The State Government has been extending facilities to the Bank in a number of ways referred to below :—

(a) Guaranteeing the debentures both in respect of principal and interoest.

(b) Provision free of cost of services of Sub-Assistant Registrars for land valuation.

(3) Grant of subsidy to meet the cost of staff appointed for recommending land improvement loans.

(4) Exemption from fees for the registration of documents.

(5) Grant of encumbrance certificates free of charge.

(6) Free access to revenue records.

(5) **Travancore-Cochin :** The Tranvancore-Cochin Co-operative Land Mortgage Bank was the only co-operative institution dispensing long-term credit to agriculture in the State. At the end of 1953-54 it had a membership of 4888 individuals. Its owned funds were Rs. 2.23 lakhs. Debentures outstanding amounted to Rs. 21.00 lakhs. The following table indicates loan operations for two years:—

	1952-53.	1953-.54.
	(Amounts in	lakhs)
(1) Fresh Advances.	5.52	2.77
(3) Recoveries.	1.88	1.86
(3) Outstandings.	27.62	28.53
(4) Overdues.	0.34	0.44

The Bank incurred a loss of Rs. 88,000 on its working in 1953-54.

(6) **Saurashtra**. A central land mortgage bank was started with the object of making loans to tenants in order to enable them to acquire occupancy rights in the lands cultivated by them, by paying compensation to Girasdars under the Saurastra Land Reform Act of 1951. There were 55,000 tenant cultivators under Girasdari landlords, and the Girasdari villages were spread over

the entire State. The State Government contributed Rs. 5 lakhs to the share capital of the Bank, while the tenants contributed Rs. 2 lakhs. There being no primary land mortgage bank in the State, the Bank financed tenant-cultivators directly through its Branches. This task was completed by 1952-53, and regular land mortgage bank work was taken up in 1953-54. During the year 1953-54, it issued debentures for Rs. 1 crore at par, carrying interest at 4 per cent and having a maturity of 7 years. The following table shows the purpose-wise analysis of loans made during 1953-54:—

	Rs. (in lakhs)
(1) Land improvement.	0.92
(2) Purchase of land	0.11
(3) Discharge of Prior Debts.	1.20
(4) Purchase of Occupancy Rights.	55.68

(7) **Hyderabad**. The Hyderabad Land Mortgage Banks Act was amended in 1953 to enable the establishment of the Hyderabad Central Land Mortgage Bank. At the end of 1953-54, there were ten primary land mortgage banks in the State having a membership of 5162 individuals and a working capital of Rs. 3.05 lakhs. The area of operation of a primary land mortgage bank was one taluq. Fresh loans amounting to Rs. 2 lakhs were advanced during the year and the rate of interest charged was 6½ %. Every primary bank has been given the services of a trained inspector and supervisor to work as secretary and accountant respectively. The State Government granted a loan of Rs. 85,714 to the Central Land Mortgage Bank at 4 per cent for a period of ten years. It contributed a similar sum to its share capital. Further, the entire expenditure on Government staff deputed to work in the Bank was borne by the State Government. During 1953-54 it made loans for different purposes as mentioned below.

	(Rs. in lakhs)
Purchase of Lands.	0.04
Land Improvement.	1.00
Discharge of prior debts.	1.06
Total Rs.	2.10

(8) **Other States**: There was only one primary land mortgage Bank in Madhya Bharat. In Assam there were only two primary banks and there was not much progress recorded. In Rajasthan there were ten primary land mortgage banks at the end of 1953-54, having a membership of 278 and a working capital of Rs. 0.28 lakhs. Fresh loans amounted to Rs. 1000 only. In Ajmer there were only 12 primary land mortgage banks with a membership of 1840 and a working capital of 1.26 lakhs. Fresh advances amounted during 1953-54 to Rs. 0.22 lakhs. A central land mortgage bank was registered towards the end of 1954.

IX. The All-India Statistics relating to Land Mortgage Banks at the close of 1953-54 are given below :—

		Central Land. Mortgage Banks	Primary Land Mortgage Banks
Number of Banks.		10	304
Membership.		49,753	2,65,186
Owned Funds (in lakhs)	Rs.	103.49	96.45
Deposit and other borrowings	Rs.	144.13	851.20
Debentures.	Rs.	1145.04	7.81
Working Capital.	Rs.	1392.66	955.26
Loans issued during the year.	Rs.	192.40	140.50
Loans recovered during the year.	Rs.	99.49	60.57
Loans outstanding at the close of the year.	Rs.	1035.16	878.86
Overdues.	Rs.	31.46	16.08

X. The Conference on Marketing and Co-operation held at Hyderabad in November 1955 passed a number of resolutions regarding the Land Mortgage Banks, which are mentioned below:—

1. Impact of land reforms on Land Mortgage Banks :

(a) That in view of the fact that co-operative institutions in general, and land mortgage banks in particular, are public, State-sponsored institutions, steps should be taken to protect their interests adequately in so far as such interests are affected

by the recent land reform legislation and they should be fully compensated for by the State Governments for any losses they might have been put to as a result of such legislation in respect of business already done.

(b) That in order to establish a satisfactory institutional structure of long-term credit, State Governments should review in detail their tenure and tenancy laws, and take steps to eliminate such features in them as, without being essential to policy, are a hindrance to the development of land mortgage banking. Maximum possible freedom for the mortgage and transfer of land among cultivators should be provided, so that the position of land as the basic security for long-term production credit is not adversely affected.

(c) That considering the financial and administrative implications involved in the programme of the purchase of ownership rights by tenant cultivators, the land mortgage banks should concentrate on the provision of credit for development purposes to cultivators rather than for paying off landowners, unless the position in particular cases is such that the programme can be managed by the banks. While the banks should willingly co-operate on the operational side and play a constructive role, the responsibility for finding the necessary funds and providing the necessary legal protection to the banks should vest with the State Governments.

2. State Assistance:

That besides guarantee of debentures and other types of assistance, the State Governments should also provide staff for the valuation of land, and financial help to the land mortgage banks for meeting their administrative costs. The minimum provision for this purpose should include the provision, free of cost, of trained staff from the Co-operative Department, as in Madras, for independent valuation of lands and scrutiny of applications etc., at the rate of one officer for every two or three primary land mortgage banks, and one Assistant Registrar, or a Deputy Registrar generally for every 25 primary banks. In addition, the State should also grant graded subsidies to meet a part of the administrative costs of central land mortgage banks, Central Co-operative Banks doing

land mortgage business and primary land mortgage banks during the first five years of their working. Such provision is particularly necessary in the case of newly established banks, both for ensuring their sound development and for enabling them to keep down the rate of interest to the borrowing cultivators.

3. Elimination of Delays :

That while a certain amount of time is bound to be taken up by the disposal of loan applications on account of the very nature of these transactions and the difficulties in the valuation of land, steps should be taken to reduce such time as much as possible by adopting the following measures:—

(a) The requirements and procedure in this regard should be explained in advance to the applicants at the primary level in order to avoid the submission of incomplete or defective applications.

(b) The time taken in routing the applications from stage to stage should be cut down to the minimum possible, and to this end adequate staff for scrutiny, valuation and supervision should be provided.

(c) Other Government departments such as the Revenue and the Registration Departments, should co-operate in giving a high priority to the provision of information and documents required in connection with the work of the banks.

4. Loans on the Basis of Anticipated Value:

(a) That in the context of the schemes of land development proposed to be carried out by means of loans from the land mortgage banks, State Governments should guarantee for a a specified period the difference between the value of the land before the improvement is effected and after it has taken place, particularly in areas, where heavy investments by the cultivator is required for converting dry land into wet land for similar purposes of land development.

(b) Loans for such purposes should be made available to the ultimate borrower at as cheap a rate as possible, and in any case not exceeding 5 per cent. by Government making funds available to the bank at a low rate of interest or by subsidizing the bank to the necessary extent.

5. Orientation of Loan Policy towards Productive Credit:

That in the distribution of loans by the land mortgage banks it should be seen that—

(i) the operations of land mortgage banks are oriented towards production, and

(ii) that a machinery is evolved for achieving co-ordination of credit with planned agricultural development, assessment of technical soundness of projects and verification of the use of credit.

For achieving these the following methods are suggested:—

(a) The types of land improvement which are most needed in particular areas and could be financed by the banks should be settled by them in consultation with the development agencies such as the NES, and the public works, and agriculture departments of the State. Such purposes may include—

(i) Measures necessary for conversion of dry land into irrigated land,
(ii) digging of wells and tube wells,
(iii) bunding, embankments and terracing,
(iv) electrification,
(v) fencing,
(vi) purchase of machinery,
(vii) construction of farm buildings,
(viii) reclamation of waste land, etc.

(b) Where specific schemes of development are sponsored by the N.E.S. and Community Projects, or other Government agencies, the land mortgage banks should fully co-operate with them in financing the schemes. Elsewhere, the banks should establish the necessary contacts with the departments concerned and draw up their own schemes of development.

(c) Each central land mortgage bank should appoint a competent Liaison and Development Officer (i) to advise on the feasibility of the schemes, (ii) to facilitate the examination of the technical aspects of loan applications and (iii) to establish contacts with the

technical departments concerned. For ensuring that the loans are utilised for productive purposes adequate, supervisory staff should also be provided.

(d) Loans should be disbursed wherever possible in instalments according to the progress of the work undertaken by the borrower.

(e) The Boards of Directors or Managing Committees of primary banks should also assume the responsibility for exercising supervision over the productive use of loan funds.

(6) **Problem of raising funds :**

(a) That in view of the target of Rs. 25 crores for long-term credit fixed at the end of 1960-61 in the Second Five Year Plan and the consequent need for a substantial expansion in the business of land mortgage banks, steps should be taken not only to raise the necessary funds but also to ensure their proper utilization. Although there may be difficulties in raising the necessary funds at economic rates due to the increasing demands of Government and private industry for funds for economic development, the land mortgage banks should be strong enough to obtain through the floation of debentures, adequate funds for their business from the market. In this connection, the financial assistance available from Government and the Reserve Bank should primarily be utilised for such purposes as would strengthen the system.

(b) That the Central Land Mortgage Banks should utilise their share capital and the overdraft accommodation available from the State Government to finance initial business, on the strength of which mortgage can be obtained and debentures raised on their security. If additional accommodation of a temporary nature is required for this purpose, loans from the Long-term Operations Fund of the Reserve Bank should be made available at concessional rate of interest, comparable to the rate of interest on medium-term loans to State Co-operative Banks.

(c) That in regard to the requirements of specific development projects in particular areas, the land mortgage banks should attempt to raise funds through special development debentures.

(d) That the Reserve Bank should be prepared either by itself or in conjunction with Government of India to purchase not merely 40 per cent. of the debentures as at present, but whatever proportion is required to make up the short-fall in public subscriptions.

(e) That the State Government should, whenever necessary give overdraft loans to the land mortgage banks in order to enable them to meet their immediate requirements.

(f) That active efforts should be made, by appropriate terms of issue and by organised canvassing, to make land mortgage bank debentures popular and marketable. The following steps in this connection should be considered :—

(i) As the leading State-partnered commercial banking institution of the country, which is expected to be responsive to the needs of the rural finance, the State Bank of India should accept as the Reserve Bank has done, the debentures of the land mortgage banks as collateral on a par with Government securities, for loans and advances.

(ii) The State Bank should also purchase and hold a part of such debentures in its investments portfolio.

(iii) The commercial banks insurance companies and other financial institutions should also be persuaded to invest their funds in these debentures and thereby assist the agricultural industry.

(g) That the suggestion made by the Rural Credit Survey report that efforts should be made to tap rural savings by the issue of "rural debentures" at appropriate times, and in conjunction with schemes of local interest should be tried.

(h) That other possible methods such as accepting deposits out of which debentures may be purchased and encouraging advance repayments by borrowers in relatively favourable circumstances should also be explored.

7. **Legal and technical problems of Land Mortgage Banks :** That a small Technical Committee, including the Secretaries or Managers of the land mortgage banks, Registrars of Co-operative Societies and legal and financial experts, should be appointed

by the Reserve Bank to inquire into the technical, legal and administrative problems connected with the organisation and expansion of land mortgage banking and report at a very early date on the measures to be taken in this regard.

The Committee's investigation should include the following subjects :—

(i) What legal provisions would be required with regard to the title to land, its transferability and alienability in order to facilitate the work of the Banks? In particular, what steps can be taken to reduce the delays arising out of the difficulty of establishing clearly the title to land ? In what respects could tenancy and other land laws be amended, so as to protect the postition of the co-operatives and not to disrupt the basis for credit without prejudice to the major policy objective of such legislation?

(ii) What would be the most suitable rational method of valuation of land? To what extent can uniformity of methods be promoted among the various States?

(iii) What would be the most efficient and economical organizational set-up for the land mortgage banks in terms of institutions, staff, supervisory arrangements etc?

(iv) What are the ways by which debentures can be issued so as (a) to provide adequate security to the debenture-holders and the guaranteeing Government, (b) to facilitate the issue of loans for varying periods to match the purpose of the loan and (c) to issue debentures for varying periods and requirements of different investors and to tap rural savings?

(v) What are the most efficient and economical arrangements for sinking funds and for investment?

(vi) What are the special problems of land mortgage banks which are newly organised or proposed to be organised and what steps should be taken to overcome these difficulties?

(vii) What are the specific administrative arrangements which can be made to provide for co-ordination between (a) a land mortgage bank and the short-term credit structure at

all levels and (b) the land mortgage banks and Government in so far as the latter is concerned with agricultural developments and the financing of it through taccavi ?

8. That in view of the peculiar problems pertaining to land mortgage banking, a special wing of the Standing Advisory Committee on Agricultural Credit of the Reserve Bank should be constituted to develop special attention to these problems.

9. **Training :**

That in view of the programme of development envisaged, the provision of adequate staff at all levels and the measures for satisfactory arrangements for their training should receive the highest consideration. In this context the proposal of the Central Committee for Co-operative Training to arrange for a special course for training in land mortgage banking is endorsed.

10. **Structure of Land Mortgage Banking :**

That as suggested by the Rural Credit Survey Committee there should be a Central Land Mortgage Bank in each State and the State should subscribe a substantial part of its share capital. Where the State Co-operative Bank is managing long-term business, a separate Central Land Mortgage Bank should be established as soon as possible.

11. That primary land mortgage banks, as distinct from short and medium term structure, should be established for areas which would form compact units and give adequate volume of business in due course. Transitory arrangements may, however, be made in States, wherever necessary, for operating long-term credit through branches of the Central Land Mortgage Bank or the agency of the District Central Co-operative Banks or otherwise.

12. **Co-ordination :**

That for establishing co-ordination between the long-term credit structure and the short and medium-term structure, the following steps should be considered :—

(a) one or more Directors of the Central Land Mortgage Bank, the Chairman preferably being one of them, should be nomi-

nated by its board as a Director or Directors of the State Co-operative Bank and *vice versa* ;

(b) The Registrar and other nominees of the State Governments, if any, on the Boards of Directors of the two banks should be common to the largest extent possible;

(c) a close relationship should be established by exchange of information and other means between the executive and administrative staff of the two institutions.

13. That immediate steps should be taken by the State Government, wherever considered desirable, to implement the following recommendations of the Rural Credit Survey Committee :—

" We recommend that Land Mortgage Banks should be recognised as Government agencies for the distribution of productive long-term loans in areas newly brought under irrigation wherever such a step is practicable. This implies that Government funds should also be channelled through these Banks and not in the traditional manner through the Revenue Department."

XI. Recommendations of the Conference on Marketing and Co-operation held at Jaipur in February 1956 : The following were the Resolutions passed at the Conference :—

(a) **Impact of Land Reform on Land Mortgage Banks :**

1. The Conference took note of the restrictions on sale, transfer and mortgage of land obtaining in the various States as a result of recent land tenure and tenancy legislation and of measures taken for the protection of the interests of backward tribes or for the avoidance of the fragmentation of holdings or under circumstances associated with the Bhoodan, and considered that such non-alienability, or restricted alienability, of the rights in land tended to affect adversely the growth of co-operative land mortgage banking in the country. At the same time, it was clear that the increased needs of the newly created classes of landholders, in the context of a programme of agricultural development, no less than the shrinkage of the supply of private credit resulting from such legislation itself, called for a rapid expansion of institutional credit for agricultural purposes. In view of this the

existing and proposed legislative measures in this field should be reviewed with a view to eliminating, wherever this was possible, without affecting the essential features of the land reform policies, such legal provisions as were likely to hinder the working of land mortgage banks. As already suggested at the Hyderabad Conference a Committee should be constituted to enquire into the legal, technical and administrative problems connected with the organisation and expansion of land mortgage banking. There should also be the maximum possible co-ordination betweenthis committee and the Central Committee for Land Reforms of the Planning Commission.

2. (i) Steps should be taken to protect adequately the interests of the co-operative institutions in general, and land mortgage banks in particular, inso far as such interests have already been affected by the recent land reform legislation, and they should be fully compensated for by the State Governments for any losses resulting from such legislation in respect of business done.

(ii) Except to the extent that this is made unavoidable by essential features of policies, freedom for the mortgage and transfer of land should be provided so that the position of land, as security for medium and long-term production credit advanced by land mortgage banks and other co-operative credit societies is not adversely affected, and that, in particular, the right to sub-let land, even where such rights are not available to private land-holders, should not be denied to co-operative institutions which come into possession of lands as a result of the default of their borrowers.

Considering the financial and administrative implications involved in the programme of the purchase of ownership rights by tenant cultivators, the land mortgage banks should concentrate on the provision of credit to cultivators or development purposes rather than for paying off the superior land-owners. While the banks should willingly co-operate on the operational side and play constructive role, the responsibility for finding the necessary funds should rest with the State Governments who should provide the necessary legal protection to the banks.

(b) **Structure of Land Mortgage Banking and Co-ordination with Short and Medium-term credit.**

3. (i) As suggested by the Rural Credit Survey Committee a unit for central land mortgage banking at the apex level should be set up in each State and the State should subscirbe a substantial part of its share capital. In view of the likelihood that the available supply of managerial and administrative personnel in most of the States participating in the Conference, as also the volume of business which such institutions can command, might be inadequate at this stage, direction and management should initially be common to the farthest extent possible between the State Co-operative Bank and Central Land Mortgage Bank, care being taken, however, to ensure that they are legally and financially separate entities. While endorsing the Resolution of the Hyderabad Conference in regard to such co-ordination between the two institutions, the Conference felt that, in the conditions obtaining in the participating States, such co-ordination could even go farther; for example, there could be a common board of directors, common building to house them.

(ii) Primary land mortgage banks as distinct from the short and medium-term structure, should be established for areas which would form compact units and give adequate volume of business in due course. Transitional arrangements may, however, be made in States, whenever necessary, for operating long-term credit through Branches of the Central Land Mortgage Banks or the agency of the District Central Co-operative Banks or otherwise. In this connection, the Reserve Bank might be requested to formulate, on an examination of such data as may be available in this regard, the minimum standards in regard to share capital, volume of business, etc. for the organization of primary primary land mortgage banks.

4. (i) In the context of the schemes of land development proposed to be carried out by means of loans from the land mortgage banks, State Government should guarantee, for a specified period, the difference between the value of the land before the imporvement is effected and after it has taken place, particularly in areas where heavy investment by the cultivators is required for converting dry land into wet land or for similar purposes of land deveopment.

(ii) Loans for such purposes should be made available to the ultimate borrower at as cheap a rate as possible by Government making funds available to the bank at an appropriately low rate of interest or by subsidising the bank to the necessary extent.

5. In view of the peculiar problems pertaining to land mortgage banking, a special wing of the Standing Advisory Committee on Agricultural Credit of the Reserve Bank should be constituted to devote special attention to these problems.

6. The Conference endorsed the resolutions of the Hyderabad Conference in regard to (i) state assistance, (ii) elimination of delays (iii) orientation of loan policy towards productive credit, (iv) the problem of raising funds, (v) legal and technical problems of land mortgage banks and (vi) training (under item No. 9 of the Agenda of the Conference—Land Mortgage Banks). In particular, the Conference emphasised the view that the State Government should hold itself responsible for the provision of temporary accommodation (i. e., pending issue of debentures); it also expressed the hope that where a very substantial increase in the volume of such accommodation made it necessary for the State Government to seek ways and means of getting assistance from the Reserve Bank, this would be readily forthcoming; it was further hoped that the rate of interest on such accommodation, normal or additional, would be as low as possible, e. g., as on the short-term loans given for agricultural purposes by the Reserve Bank.

CHAPTER XII

CO-OPERATION AND AGRICULTURAL PRODUCTION

Part I—Consolidation of Holdings

1. What is Fragmentation? Fragmentation is a condition of agriculture the characteristic of which is that a large number of landowners are in possession of holdings which are not only split up into uneconomic bits but are also scattered over a wide area. The problem of fragmentation is bound up with sub-division of holdings, and the two generally co-exist.

2. Merits and Demerits of Sub-division of Land :

(1) Sub-division of holdings prevents the division of society into two antagonistic classes, viz., a class of landlords and a class of landless agricultural labourers. It enables the creation of a class of peasant proprietors having a stake in the land and who are attached to the soil.

(2) When the heirs of a landowner inherit plots with different degrees of fertility, sub-division guarantees an equalization of net advantages. This to some extent effects a sort of insurance against a failure of the monsoon.

In order to reap the advantages of sub-division, it may be noted that the process should not be pushed to excessive length, which, however, has been the case in India. As a result of excessive fragmentation and sub-division, the advantages are nullified, costs of cultivation go up and a holding of one or two acres in six or seven tiny scattered plots become too small to support an agriculturist-family.

3. Evils or Disadvantages of Fragmentation : Sub-division of land among heirs in each generation constitutes one of the major obstacles to the stepping up of agricultural production through improvement of the farming technique. A farmer who owns only two to three acres of land rightly refuses to invest monies in the

sinking of a well which can irrigate 20 acres of land. The evil of fragmentation, it may be noted, is not peculiar to India only but it is found throughout the European continent. Sub-division progressively reduces the size of the holdings and when the holdings become smaller and smaller, the proportion of fixed costs to the total cost of cultivation increases, for example, the cost of maintaining a family or a pair of bullocks or a few agricultural implements do not decrease with dimunition in the size of the holding; nor are variable costs reduced. On the contrary, they are found to increase. For example, the cost of financing per acre of land and of manure or seed is higher when the farmer cultivates a smaller rather than a bigger holding. When landed property is partitioned among heirs, some portion of valuable land is necessarily wasted in demarcating the boundaries. When holdings are scattered over different places, the farmers are required to move from one place to another and make use of a larger number of implements, cattle and of hired labourers and watchmen than would be the case if the holding had been in one place. Further, fragmentation also prevents maintenance of correct levels and creates difficulties in making provision for surface drainage. When the fragments become too small, it ceases to be cultivated. In the Punjab, it is computed that 5 % of the land is wasted as it is in pieces, too tiny to be cultivated, and 1 % is lost to cultivation in boundaries to demarcate holdings. Lastly, the greatest evil of fragmentation is that it brings in its wake a crop of disputes regarding rights to way, irrigation rights, boundary rights etc. and the farmer is involved in expensive litigation. Fragmentation and sub-division of holdings have been pushed to absurd lengths in India, where the average size is about 7.5 acres. This compares very unfavourably with an average size of holdings in other countries as mentioned below :—

Name of the country	*Average size of the holding*
(1) Denmark	40 Acres
(2) Holland	26 ,,
(3) Germany	21.5 ,,
(4) France	20.5 ,,
(5) Britain	20.0 ,,
(6) U. S. A.	145.0 ,,

The position in the various States in India, prior to Independence, was as under:—

		Average size of the holding.
(1)	Bombay.	13.2
(2)	Punjab.	10.0
(3)	C. P.	8.5
(4)	Madras.	4.5
(5)	Orissa.	4.9
(6)	Bengal.	4.4
(7)	Assam.	4.8
(8)	U. P.	2.5

The following table indicates to what extent sub-division has been pushed and it gives holdings of land below five acres in various States:—

	Name of the States	Percentage of holdings below five acres	Percentage of area to the total area in the State
(1)	U. P.	81.2	38.0
(2)	Bombay.	51.31	14.0
(3)	Madhya Pradesh.	51.5	10.0
(4)	Orissa.	74.2	30.1
(5)	Bihar.	83.3	N. A.
(6)	Assam.	66.1	26.0
(7)	Mysore	66.2	25.3
(8)	Travancore-Cochin.	94.1	44.0
(9)	Himachala-Pradesh.	95.0	71.0
(10)	Pepsu.	45.4	8.2

(Vide Extracts from the Report of the Planning Commission—Appendices—Pages 199 to 202)

From the recent statistics collected by the Department of Research and Statistics, Reserve Bank of India, in connection with the study of the Land Problems in India, it is seen that almost 60% of the holdings in Orissa and 66 % in U. P. were below three acres, while in Madras, almost 84 % of the holdings were below 5 acres. In the Punjab almost 60 % of the holdings were below five acres while holdings below 15 acres constituted 88 % of the total number of holdings. The devastating effects of subdivision and fragmentation of land were seen in the Ratnagiri and Satara

Districts in the Bombay State, where it was found that in one case 25 acres of land were subdivided into 125 individual holdings, while in another case 19 acres were owned by 126 different farmers.

4. **Causes of Fragmentation and Sub-division:** Sub-division and fragmentation of holdings are due to the same economic and other causes, the more important of which are listed below:—

(1) Pressure of population on land.

(2) Lack of alternative avenues of employment for the growing number of farmers.

(3) Laws and customs relating to inheritance of property which permitted its division among heirs, and this property consists of all types of lands owned by the predecessor.

The laws of inheritance have been in force in this country since a very long period, but fragmentation and sub-division of land have been accentuated during the last 50 years and are found to be due to increasing spirit of individualism. In ancient India when the joint family property was the rule, holdings could not be broken up, but with the spread of Western ideas regarding individual rights and with the emphasis placed by the British Law Courts on individual rights to property, a premium was put on partition of property and the trend to seek partition was strengthened by steady increasing population.

(4) Purchase by Moneylenders—The moneylenders have been responsible for sub-division and fragmentation of holdings, as they purchased numerous small plots scattered helter-skelter in satisfaction of their debts. This sub-division is now prevented under the Provisions of Tenancy Laws.

(5) Decay of Subsidiary and Cottage Industries. The imports of cheap machine-made goods from England and the Continent have been responsible for the disappearance of village and cottage industries which once marked the economic life of the Indian village. Thus a considerable proportion of the rural population hitherto engaged in village industries was converted into labourers working on land. With an increase in the process of ruralisation, the demand for cultivable land has led to an accentuation of the process of sub-division.

(6) Influence of Social Structure—Generally speaking, the most usual cause of excessive sub-division and fragmentation may be attributed to the "Influence of social structure which creates, too great a demand for land by population completely dependent on the land under a system of inheritance, which insists on a meticulous similarity of physical equality in each share of the original holding."

5. **Remedial Measures** — The obvious remedy that was thought of in the past to correct the situation was legislation. But experience has shown that legislation by itself cannot be effective because legislation cannot proceed much in advance of public opinion. Legislation for which a community is not socially or economically prepared results in its wholesale evasion and resistance which cannot be punished for lack of support of public opinion. If legislation fixes a minimum area of land, it leads to unexpected difficulties because the minimum area cannot be suitable for all types of land—Bagayat, Jirayat or Kyari lands. Further, by establishing a minimum farm area, legislation limits the number of farmers to be employed on land and with an increase in population it becomes unworkable unless the surplus population is absorbed in alternative employments. It is obvious that attempts at remedial measures through legislation would be abortive unless steps are taken to prevent continuance of influences that facilitate and accentuate fragmentation. An important measure in this direction would be imposition of restrictions on the transfer of agricultural land. Even where the fragmented holdings are consolidated, their further division will have to be prevented by law. A more effective remedy for sub-division and fragmentation of holdings is the consolidation of holdings, which, in the words of the Royal Commission on Agriculture, is in reality the substitution by exchange of land of a compact block for a number of separate fragments. By this process all the land of one holder may be formed into one plot only or into a few plots of different kinds of soil.

Though consolidation acts as a corrective to fragmentation of land, it is beset with numerous complexities because of variation in the nature and fertility of the soil on the one hand, and con-

servation and illiteracy of the farmer on the other. No doubt the problem is simplified if farms are of a homogenous type as in that case it simply means regrouping of land and its redistribution among farmers. But in actual practice, the position is not so simple.

In the first place, where fragmentation has been carried to the extreme, it is not possible to find an agriculturally homogeneous area. Secondly, the particular topography sets limits to the proper arrangements of fields. Thirdly, even in dry areas variations in water conditions and supply exist and these influence the size of farms and arrangement of fields. Lastly, when a portion of land is put to more remunerative use, viz. where garden crops are raised, or fruit trees are grown, repartition of land in an equitable manner which would be fair to all participants, will be rather difficult and controversial. Despite these difficulties in most parts of the country except hilly tracts, a rearrangement of land into compact blocks cannot be ruled out, and where even after consolidation individual holdings tend to be small and where alternative avenues of employment to the agriculturists in agro-industries can be made available, co-operative farming would be a solution. Not that there are no other difficulties which consolidation has to contend against. The traditional attachment of the peasant-proprietor to a particular piece of land which he knows very well comes in the way of consolidation being facilitated on a voluntary basis. The second difficulty arises on account of lack of finance, as consolidation is an expensive process. Apart from expenditure that requires to be incurred on preliminary surveys and demarcation and supervisory staff, farmers who have got lands of inferior quality in the process of consolidation require to be adequately compensated and farmers who have got lands in exchange of superior quality may not accept official estimation and even if they do, they may lack funds. In order to tackle the problem, voluntary action through co-operative effort aided by Government would be no doubt an ideal one, but purely voluntary action among farmers can be ruled out of consideration except in a few advanced communities. The Governmental action has for the most part in the past aimed at supporting voluntary effort by compelling recalcitrants and by offer-

ing financial and other inducements and by providing administrative and technical assistance. If improvements in lands and methods of cultivation are to be brought about, consolidation must form part of a wider plan for the economic development of the community.

6. Progress of Consolidation of Holdings in India

(1) **Baroda.**— Baroda was the first State in India to take steps for the consolidation of holdings. The Maharaja of Baroda appointed a Committee in 1913-14, to investigate the problem and on the recommendations of the Committee, an Act for the Consolidation of Holdings was passed in 1920. This was only a permissive measure and in 1933 as a further measure in the same direction, an Act to prevent fragmentation of holdings was passed under which the right of pre-emption was given to holders of neighbouring fields, if a fragmented holding was offered for sale. The work was entrusted to the Revenue Department and in view of several diffiuclties involved, not much work could be done. Up to the end of 1936-37, about 48,000 acres of land were consolidated.

(2) **Madhya Pradesh**—In Madhya Pradesh the Consolidation of Holdings Act was passed in 1928. The Act provided for the appointment of a Consolidation Officer who, on the application of two or more right-holders in any village, may, after enquiry effect a scheme of repartition of lands, provided the preliminary condition that half the holders with two-thirds of the land agreed to the proposal, was satisfied. A Special Officer was appointed and proceedings were settled by him. He placed in possession of a disputed land a person who, in his opinion, was entitled to it. A Civil Court has no jurisdiction in the matter, which a Consolidation Officer is empowered to decide. The area of land consolidated up to September 1950 was 24,18,851 acres. The number of blocks before consolidation was 48,93,457 and they were consolidated into 8,98,762 blocks or Khasras, excluding 3,78,078 Khasras comprising threshing floor, baris and kothars. The total cost of consolidation amounted to Rs. 10,44,185. The cost recovered from cultivators amounted to Rs. 6,16,393 while

the Government's share was Rs. 4,27,792. In Sagar District the entire cost was borne by Government. The work of consolidation was mainly carried out in Chatisgarh Division where fragmentation of holdings had reached alarming proportions.

(3) **Bombay**—In 1927 the Government of Bombay introduced in the Legislative Council a Small-holders' Bill, which was lost on account of keen opposition to it. But in 1957 the Government could get the Prevention of Fragmentation and Consolidation of Holdings Act passed. It is proposed to complete the enforcement of the Act in about 22,000 villages of the pre-merger Bombay state within fourteen years from April 1950. The work was started in April 1948 in 187 villages selected for survey in different districts. At the end of March 1950, Schemes had been prepared for 169 villages in all and schemes were in progress in another 27 villages. Six Consolidation Officers and 20 Assistants were at work, and the expenditure incurred up to 31-12-1949 was Rs. 6.39 lakhs. Under the Act sizes of standard areas for different kinds of land are fixed in consultation with the District Rural Development Boards. All parcels of land below the standard area are entered as fragments, and the holders there of are notified that the pieces of lands treated as fragments should neither be further partitioned nor alienated except in accordance with the provisions of the law. Infringement of these conditions is punished by making the transfer or partition null and void and by imposing a fine of Rs. 250 on the person liable.

(4) In Uttar Pradesh, consolidation of holdings was undertaken under the State legislation which is passed on the model of Madhya Pradesh Act but through co-operative societies. There were 427 societies for the consolidation of holdings and the area consolidated was 1,70,000 acres.

(5) **Kashmir**—Legislation on the lines of that passed in Madhya Pradesh was also enacted and consolidation of holdings attempted on a co-operative basis on a modest scale. During the period 1937-47, 11,738 acres of land were consolidated with the result that the number of blocks fell from 24,900 to 4,132.

(6) **Pepsu**—Recently, legislation for promoting consolidation of holdings has been passed in this State also.

(7) **Punjab**—The pride of place in the field of consolidation of holdings goes to the Punjab. As will be seen from an account given in the subsequent paragraphs, the work was mostly carried out through the medium of co-operative societies. In order to acelerate the progress of consolidation, an Act on the lines of the C. P. Act was enacted in 1936 and the work was to be carried out through the agency of the Revenue Department, but the major part of the work had also to be done by the Co-operative Department. Up to the end of 1945-46, 5 per cent. of the entire area of the Province before partition was consolidated. About 12,67,000 acres were consolidated by the Co-operative Department. The entire cost of consolidation was borne by Government originally and later a system of levying contribution from societies was introduced to cover a part of the cost. Prior to 1939, the cost of consolidation per acre varied from Rs. 1-8-0 to Rs. 2-8-0, but it rose to Rs. 15 per acre in 1947-48. After the partition of the Punjab, a plan to bring about a consolidation of lands in the East Punjab was drawn up to be completed in 1956 and a special grant of Rs. 20 lakhs was allotted for the purpose by the State Government. A school for training 400 officers for the work was opened and a special department was created for the purpose. It was also intended that the consolidation work should be pushed forward under the special legislation and not on a co-operative basis. In the following paragraphs an attempt is made to give an account of the position in respect of the size of holdings and their distribution in the undivided Punjab, together with statements showing the progress made in the field of consolidation through the medium of co-operative societies. (*Vide* Statistical Table attached at the end).

7. (1) **Consolidation of Holdings Societies in the Punjab.**—It has already been shown how scattered and fragmented holdings are a great evil acting as a drag as on agricultural production and how various remedial measures are essential to be

taken up simultaneously to check the evil. The extent of small holdings disclosed by the survey conducted by the Board of Economic Enquiry in the undivided Punjab in 1939 is given below:—

Cultivators having holdings:		Percentage
(1) Below 1 acre.		20.2
(2) Between 1 and 3 acres	—	28.6
(3) Between 4 and 5 acres	—	14.9
(4) Between 6 and 10 acres	—	16.9
(5) Between 11 and 15 acres	—	7.3
(6) Between 16 and 20 acres	—	3.6
(7) Between 21 and 25 acres	—	2.2
(8) Between 26 and 50 acres	—	3.9
(9) Above 50 acres	—	2.4

Similarly, the following table indicates the number of plots of land held by cultivators.

Particulars: **Cultivators having:**		*Percentage of* **total**
(1) 1 plot	—	19.5
(2) 2 to 5 plots	—	23.9
(3) 6 to 10 plots	—	13.5
(4) 11 to 15 plots	—	9.8
(5) 16 to 25 plots	—	15.5
(6) More than 25 plots	—	17.8

Attempts were made as early as 1920 by the Co-operative Department to combat the evils associated with the fragmentation of holdings which stood in the way of improvement of land. The consolidation of holdings on a voluntary basis was, therefore, taken up first on a co-operative basis and the progress made is given in the table appended at the end of this note. Till the year 1948, 7.07 lakhs acres of land were consolidated in the East Punjab, out

of a total area of about 198 lakhs acres of land, through the Co-operative Department. Along with the work of the Co-operative Department, consolidation was also taken up by the Revenue Department in the year 1935 on a voluntary basis. In view of certain practical difficulties experienced in the work of consolidation of holdings the Consolidation of Holdings Act was amended in 1936. Under the amended law, powers were conferred on the Consolidation officers for preparing shemes, for settling disputes among rights holders and for appointing Advisory Committees. The efforts put in by both the Revenue and the Co-operative Departments being inadequate to cope with the huge problem, the Consolidation of Holdings Act was again amended in 1948, bringing in the element of compulsion in regard to consolidation of holdings. A separate Department was, therefore, created under the Director of Consolidation and all the work of consolidation was transferred to that Department with effect from 1st April 1948. The following table indicates the progress of consolidation work since the year 1949:—

Year ending:	No. of villages where consolidation was completed.	Total area consolidated (in thousands) (Acres)
30th September 1950	167	127
30th September 1951	273	152
30th September 1952	1159	944
30th September 1953	1196	986
30th September 1954	1347	1378
Total	4142	3587

N. B. — Figures taken from "Co-operative Movement in the Punjab" by Dr. Madan (page 46)

(2) **Establishment of Consolidation of Holdings Societies.**

It has already been stated earlier that the work of consolidation was carried out on a voluntary basis and for this purpose Co-operative Consolidation Societies were formed as far back as 1920

chiefly due to the initiative of the then Registrar, Mr. H. Calvert, a well-known authority on Co-operation in the Punjab.

(3) **Objects and Working of Consolidation of Holdings Societies**

The chief aim of a co-operative consolidation of holdings society was to give compact blocks of land to such members as were as close to each other as possible. Every member of the society was required to agree to any method of repartition approved of by two-thirds of all the members of a society and give up possession of his plot of land for a period of four years in accordance with the Plan of Repartition agreed to by the society. He was further to agree to reference of all his disputes to arbitration. The possession given to the society for four years was more of a cultivation possession and during that period it was open to the member to transfer the ownership of his plot to somebody else. With the realization of benefits of consolidation it was expected that cultivators would convert their cultivating possession into permanent exchange of ownership of the society. The work of consolidation was started with the help of special staff that wsa recruited either from the Revenue Department or from the Co-operative Department. The staff drawn from the Co-operative Department was given training in revenue work. The table at the end of this note gives a clear picture of the progress made by these societies which had to encounter difficulties created by illiteracy, ignorance, conservatism of members, party factions in the villages, hostility of the revenue officials and opposition from mortgagees of land comprised in the consolidated area. As will be seen from the table, a few of the societies only remain in existence at the end of 1954, because of the enforcement of consolidation on a compulsory basis after 1948.

4. **Benefits of Consolidation.** The following are some of the economic benefits that are reported to have accrued to the farmers as a result of consolidation of their holdings:—

(1) **Increase of land under irrigation.** As soon as land was consolidated into a compact block, it facilitated digging of a well or repairs to existing ones or irrigate the land which was not possible previously. Till the year 1946, it is reported that 9,149 new wells were sunk, and 1,563 old wells were repaired in the area consolidated by the society.

(2) **Increase in cultivated area and increase in production.** Waste land which had been neglected in the past because it was scattered in several places was brought under the plough, resulting in increase in production.

(3) **Use of Improved Implements and Intensive Farming.** With the bringing together of fragmented holdings, use of improved implements was facilitated and new crops and new varieties of old crops began to be sown, thus stepping up agricultural production by intensive farming.

(4) **Provision of other Amenities.** Under the revised scheme of consolidation, a number of plots of land for the digging of manure pits for grazing, for construction of school buildings and for playgrounds were set apart.

(5) **Reduction in Litigation.** When the boundary rights which give rise to litigation were swept away, litigation and causes of quarrels were reduced to a great extent.

(6) **Increase in Revenue to Government.** With an increase in area brought under cultivation, land revenue payable to Government also increased, though Government had to incur expenditure on account of appointemnt of special staff for the purpose of consolidation.

(7) **Settling the Cultivator on the Land.** Some owners of land, who had left it because their holdings were very small and scattered came back to cultivate their lands after consolidation. Thus more interest was created in lands which made possible more improvements thereon.

(8) **Improvement in the Outlook of the Cultivator.** The consolidation of holdings through the societies gave the cultivator a new outlook on life. This form of co-operative activity has brought home to the cultivator more practical lessons about the benefits of co-operation than anything else.

5. **Progress of consolidation in the Punjab.** The following table gives the statistics relating to the progress of consolidation in the Punjab during a preiod of three decades commencing from 1920-21 to 1953-54 :

STATEMENT SHOWING PROGRESS OF CONSOLIDATION OF HOLDINGS SOCIETIES IN THE PUNJAB

Year	No.	Member-ship	Area Consolidated at the end of the year.	Total Area Consolidated at the end of the year.	No. of Blocks Before	No. of Blocks After	Average Size Before	Average Size After
			Acres				Acres	
1920-21	60	690	6,350	7,479	10,783	2,044	.75	4.4
1925-26	237	10,928	18,414	60,015	32,059	6,108	.6	3.0
1930-31	795	47,948	72,281	3,33,880	1,17,982	21,627	.6	3.0
1935-36	1,210	1,03,584	92,689	6,71,063	1,17,982	21,627	N.A.	N.A.
1940-41	1,672	2,05,439	1,70,002	13,91,839	1,17,982	21,627	N.A.	N.A.
1945-46	2.003	2,57,913	67,650	15,43,34	4,99,874	84,421	N.A.	N.A.
1946-47	1,563	2,20,383	34,317	N.A.	49,989	11,082	N.A.	N.A.
1947-48	1,363	1,81,218	13,005	N.A.	21,569	4,884	N.A.	N.A.
	+	220	+ 38,623	N.A.	N.A.	N.A.	N.A.	N.A.
1948-49	1,381	1,93,573	21,259	8,20,000	3,408	6,299	N.A.	N.A.
1950-51	1,361	1,86,057	Nil	8,20,000	N.A.	N.A.	N.A.	N.A.
1953-54	195	35,713	—	8,20,000	N.A.	N.A.	N.A.	N.A.

Figures taken from the Co-operative Movement in the Punjab by Dr. G. R. Madan, pp. 123

Part II. (1) The Case for Co-operative Farming

Our population is fast growing and production of foodgrains will naturally have to keep pace with it. Stocks will have to be built up against natural calamities such as scarcity or famines on the one hand, and floods on the other. Efforts to increase the area under irrigation, to improve the techniques of farming and to bring more and more land under the plough, will have to continue and in all these programmes, co-operative endeavour will have to pull its proper weight. The notable part played by co-operatives in stepping up agricultural production takes various forms as the distribution of quality seeds and fertilizers, the supply of cheap and prompt credit for digging of wells, land improvement and installation of costly machinery, provision of irrigation facilities and establishment of co-operative farming societies of various types. The question is often asked whether co-operative farming in the sense of pooling and working the land in large blocks is at all feasible and practicable in the present economic conditions in India. It is pointed out that the advantages of large-scale farming have not been demonstrated in India and that in a densely populated country like India the evolution of agriculture should be more on the lines of intensive farming of the kind practised either in China or Japan rather than on the lines of those of Soviet Russia or U.S.A. It is further contended that if economies in purchase and sale are available, the family-size farm is a better productive unit than large estates, especially in places where labour is cheap and land meagre. The various farm operations such as ploughing, digging, manuring, harvesting and other arduous tasks are all done by hand-labour. Under such conditions of crop production, large-scale farming and joint cultivation have hardly any place and there is no system which can replace it in productive efficiency. The creation of family-size holdings with the farmers who are free to cultivate their holdings independently but agreeing to make their purchases and sales jointly has been held up as a desirable objective of land reform in this country. "If the yield per acre is the only criterion, the Chinese method of cultivation in relation to their particular land and the people is praiseworthy but the return is not commensurate with the prodigious labour and effort involved and the sufferings and privations

undergone. Chinese farming is efficient as measured by yield per acre; terribly wasteful if measured in human effort."

(2) **Advantages of Co-operative Farming**

(a) **Economic Security.**—When lands of different fertility and location go into the common pool, the risks of failure and consequent loss get more widely distributed and no individual farmer is totally ruined. The farm equipment will be more fully employed.

(b) **Adjustment of Production to Market Needs.**—When agriculture passes from a self-sufficing stage to commerical one, the farmer has to adjust his production, and the method of production to the needs of the market. Unless there is an association to study the market trends and to advise the farmer on the best way to employ his resources, the farmer is likely to remain the weakest unit in the economy. Farming co-operatives will constitute the auxiliaries for the State to enforce a production programme for introducing improved techniques and maintaining the desired standards of cultivation. Lastly, the value of agricultural communities organized into co-operatives for different purposes comprising of a whole village or a group of villages as a social organization bringing into the common group the erstwhile individualistic elements cannot be discounted. The immediate importance of agricultural production on co-operative lines lies in the imperative necessity to increase national production for making the country self-sufficient in food and industrial raw material. Co-operative farming is held to be the best means of rationalizing agriculture and attaining a higher order of social and economic life in keeping with the principles of democracy and self-government.

(3) **Co-operative Farming Societies.**—Co-operative farming has no uniform connotation in this country. It is often used indiscriminately to denote all kinds and stages of co-operation in agriculture, and there is a lot of confusion and misunderstanding as to what the term 'co-operative farming' exactly means. Dr. Otto Schiller in his monograph on "Co-operative Farming and Individual Farming on Co-operative Lines" observes : "In modern literature generally co-operative farming is understood as a form of farm

management in which the land is used jointly. In India for this type of farming, a distinction is made between joint farming and collective farming. It is called co-operative joint farming in cases where the ownership of the land which is pooled together is preserved as a title and the value of the land contributed is one of the factors which is taken into account when the income is shared. It is called 'co-operative collective farming' in cases where, in addition to land, all other resources of the members are pooled together and the ownership of land disappears in so far as the farm income is divided among the mermbers only according to the work done by each member. We may accept this terminology but should be aware that these terms are not used in the same sense everywhere and often both words have the same meaning. We should make it clear, however, that by using the term 'collective farming' we do not want to mix it up with collective farming under the Kolkhoz system in Communist countries. A joint or collective use of land has only in that case a co-operative form, if it is based on the well-known principles of a genuine co-operative society. This is usually not the case with the Kolkhoz farms in Communist countries. In those, neither is voluntary membership sufficiently secured nor are the democratic principles of self-determination and self-administration actually materialised. Collective land used under the Kolkhoz system cannot be properly called co-operative farming. On the other hand, collective farming which is not connected with the Kolkhoz system as for example, in Israel or Italy, may be called a form of co-operative farming. As distinct from co-operative farming with the joint or collective use of land, there exist forms of co-operative farming with individual use of land. Here also we can observe a great deal of confusion. When one or the other farming procedure is carried out co-operatively, as e.g., co-operative supply of seeds or fertilisers, co-operative threshing or co-operative use of male breeding animals, this cannot yet be called co-operative farming. The application of co-operative methods in bringing about agricultural production can be called co-operative farming only if *most* of the farming procedures are carried out co-operatively or at least found in the way of their execution by co-operative agreements." Dr. Schiller gives a chart illustrating what types of co-operatives can be classified as co-operative farming and what types cannot.

Various Types of Farming

Unorganised Individual Farming

No Farming operations Co-operatively			Single Farming Operations Co-operatively		
Credit societies.	Supply and marketing societies.	Processing societies	Few multi-purpose societies.	Tenant farming societies	Part of better farming societies.
Most Multi-purpose societies.	Better living societies	Others	Co-operative farming societies		Societies for co-operative use of machinery

Co-operative Farming	Kolkhoz farming

INDIVIDUALISTIC TYPE		COLLECTIVIST TYPE		
Most Farming Operations Co-operatively.		All Farming Operations Co-operatively.		
Individual Plots		No Individual Plots		No real voluntariness
Part of better farming societies	Co-op. society for improved individual farming (in experimental stage)	Joint farming societies (land pooled, ownership preserved.)	Collective farming societies (land and other resources pooled, ownership not preserved.)	No real self administration. Colletive farming societies.

(4) **Different Forms of Co-operative Farming Societies**

The All-India Co-operative Planning Committee classified co-operative farming into four categories, viz—

(a) Better farming,

(b) Tenant-farming,

(c) Joint farming, and

(d) Collective farming.

(a) **Better Farming Societies.** In a better farming society the members continue to cultivate their lands individually. The society is designed to introduce improved methods of farming. It assists them in obtaining credit, supplies and marketing. The members of such a type of society agree to follow a plan of crop planning prescribed by it. In fulfilment of this object, it may undertake the joint purchase of seed or manure or pooling, grading, or joint ploughing or joint harvesting or joint use of machinery or joint arrangement for watch and ward of the crop. Each member in such a society is, however, independent except for the specific purpose for which he joins his society. He pays for the services rendered to him and at the end of the year he may also receive a patronage dividend. Agricultural improvement or land improvement societies, agricultural demonstration societies and irrigation co-operatives can be classified under the catagory of better farming societies. The object of an agricultural demonstration society is to purchase or take land on lease and cultivate it under the advice of the Department of Agriculture to demonstrate the utility of new methods while that of an irrigation society is to undertake the maintenance of tanks and water courses or install water lifting machinery and see to the regulation and supervision of the supply of water to the members' lands.

(b) **Tenant Farming.**—This type of society owns lands on freehold or leasehold basis, but its holding is divided into smaller plots, each of which is leased or sub-leased to an individual tenant-cultivator who is a member of the society. The whole area is cultivated in accordance with a programme laid down by the society, but the manner in which the programme is to be executed is left to the discretion of each individual tenant. The society undertakes to supply credit, seed, manure, costly agricultural machinery and to arrange for the marketing of the tenant's produce, but it is open to each tenant-member to avail of these facilities or not. Each tenant pays a fixed rent for his holding, but the produce of the holding is his own and entirely at his disposal. This type of society replaces the superior landlord and the profits after meeting all expenses and providing for a reserve fund are distributed ar the tenant-members in proportion to the rent paid by eac. The better farming and tenant farming societies, though they can play

an important part in the agrarian economy, have no element of joint cultivation and management.

(c) **Joint Farming.**—A co-operative joint farming society is one in which land-holders, whether tenants or owners, pool their lands because their separate holdings are not large enough to permit of economical farming and that is why they entrust such lands for cultivation by the society. The ownership of individual plots so pooled is retained. The cultivation of the lands is done by the society on its own account. Members work on the pooled lands in accordance with the directives of an elected Committee and the Manager appointed by it. It is open to the landholders to work on the farm and they are paid current wages if they do so. The ownership of each member's holding merged with the lands of others is recognized by the payment of a dividend in proportion to the value of his land. Other casual labourers are also hired if and when necessary. The income accruing from collectively raising the produce on the pooled lands less expenses of cultivation including payment for the use of land, wages and cost of management constitutes the profits of the society. Provision is also made for setting apart of a portion of the profit as reserve fund the balance remaining to be shared by members in proportion to the value of the land contributed or in proportion to the wages earned by a member. The ordinary functions of this form of society are the planning of a crop programme, the joint purchase of farm requirements and joint sale of farm produce, raising funds on the security of land, crops and other moveable or immoveable assets of the society for purposes of land improvement or for purchase of machinery or for payment of operational expenses and all other activities calculated to promote the development of agriculture. A subsidiary agreement is generally made between the society and each member that if any improvement is made on his plot of land, he will repay its cost if he ceased to be a member of the society. The term 'co-operative farming' is intended to apply to joint farming and collective farming societies.

(d) **Co-operative Collective Farming**.—A co-operative collective farming society also holds land on freehold or leasehold basis, and all other means of production. It undertakes the joint

cultivation for which all its members pool their labour resources and each receives in return prescribed wages. Large-scale cultivation facilitates mechanization of agricultural production and this is the society's most important gain. The lands are also cultivated on society's account by members who are paid wages. The profits are worked out at the end of the year after deducting wages, cost of management and allotment to reserves. In addition, members are given a bonus on the wages earned by them out of surplus profits. In this type of society it either becomes the owner or lessee of all the lands held by it and individual ownership of land is not retained. Each individual owner becomes the stake-holder and is credited with the value of the land and other fixed capital or other equipment transferred to the society. If there are profits after meeting all the operational expenses, cost of establishment etc., the member gets a dividend in proportion to the value of capital contributed or other assets transferred. He has a right to be employed by the society. Where societies are formed on lands belonging to Government or on the surplus land that may be reclaimed or obtained, it would be desirable to organize collective farming societies, and in such a type of society only such persons should be admitted as members as agree to participate in the work of the society from day-to-day. It would be desirable also to prescribe a minimum area as well as a minimum membership for the registration of a co-operative farming society understood in the sense indicated elsewhere. Depending on the pattern of crops a co-operative farming society in a rice tract may have a pool of 35 to 50 acres of land, whereas in cotton and wheat zones the area may be anywhere between 50 to 100 acres. It may be noted that the optimum area of a co-operative farm would depend upon the techniques that may be employed. A co-operative collective farming society need not be confounded with a collective farm of Russia. The former is a fully democratic institution managed by the members themselves without any State control or dictation. It is open to a member of a co-operative collective farming society to resign from the society and after due notice receive a refund of any capital he may have subscribed. A collective farm on the Russian model, on the other hand, though apparently managed democratically, is largely controlled by the State, which makes it serve the production and the price policies deter-

mined by the State. The State defines the production programme of a collective farm and it lays down also a rigid price policy for the greater part of the marketable produce of the farm. The land of a collective farm originally belonging to the members, becomes the property of a collective farm for its permanent use and the member loses irrevocably the right of individual ownership.

(5) **Common and Distinguishing Features of Co-operative Collective Farming and Tenant Farming Societies.** These two types of societies can be formed only in cases where large areas are available on lease either from landlords or Government. The Co-operative Planning Committee has suggested that whenever the State acquires land by reclamation or otherwise (as in the case of abolition of Zamindaries), it should set apart a portion of it for the settlement of ex-servicemen and landless agricultural labourers. Whenever ex-servicemen are settled, they should be organized into co-operative collective or tenant farming societies. Facilities to settle themselves on lands should also be given to landless tenants. In Madras land colonization societies are formed for ex-servicemen and there are co-operative tenant-farming societies as well. The State assists them with grants and loans for capital expenditure and guarantees repayment of loans supplied by central co-operative banks for operational needs. If the society holds land on freehold or lease-hold basis, it is divided into smaller plots, each of which is leased to the individual member for cultivation. This type is called a co-operative tentant farming society. But if on the other hand, land is cultivated jointly by all the members and the produce is raised collectively or the sale-proceeds of produce raised through common efforts are distributed among the members, in proportion to the wages which may include remuneration not only for personal services rendered but remuneration for other equipment such as bullocks or implements, the society is called a co-operative collective farming society. What is common to both the types is that the society becomes a superior landlord or a superior holder and the members are mere leandless workers either working in their individual capacity on a separate plot, leased or sub-leased, or working in common for collectively raising the produce. The benefits of these types of society are that the subsistence of members is made more certain instead of

being left to be uncertain, while the tenants work on their own plots and their tenure also becomes more stable by self-employment on their individual or collective farm owned or leased by the society of which they are members. In a tenant farming society, each tenant who is a member of the society pays a fixed rent of the plot allotted to him. It is not open to him to assign or sub-lease the plot. A distinguishing feature of this type of society is that all the occupational hazards, the profits or losses of the undertaking are matters of personal concern to the individual tenant only. In fact, this type is a mixture of a resource society and a better farming society with some control reserved to the society for directing cultivation to be carried on by members according to a programme to fixed. If the society owns certain implements such as tractors, it may render services to the members like deep ploughing and the charges for these services will have to be borne by the members. The profits of the society after meeting all expenses and deducting all other charges and appropriating a portion to the reserve, are distributed among the members in proportion to the rents paid by them. It is presumed in both the types that landless persons, whether they be agricultural labourers or ex-servicement join the society which is either the owner or the lease-holder of the lands, but if there are a few persons holding lands adjoining the lands of such a society, who are willing to merge their lands with those of the society, i.e., if they are willing to transfer both ownership and possession of the lands in favour of the society, they cannot be entirely excluded from a collective farming society. In fact, a few societies of this type are already functioning in the Bombay State.

(6) **Points of Distinction between a Joint Farming Society and a Collective Farming Society.**—The main point of distinction between the two types lies in the fact that in a collective farming society the ownership of the lands vests with the society, while in a joint farming society, the lands are held by members as owners or tenants of other landlords. In the former, the ownership of individual members in land is obliterated, while in the latter, it is still retained with the members themselves. In so far as farm operations are concerned, they are organized and their work pai for and net profits arrived at in a similar manner in both the types.

But in the case of the collective farming society, the society exercises complete control over lands comprised in the farm owned or leased by it and the landholders or landowners from whom the lands have been obtained on lease are entitled to get rent that is prescribed by law from time to time. In a collective co-operative farm the active members who actually work on the land would be eligible to share the profits on the basis of work put in on the farm.

(7) **Working of Co-operative Joint Farming Societies and their Distinguishing Features and Functions.**—This type of society visualises pooling of land on the part of small owners or tenants whose separate holdings are so small as to preclude profitable cultivation. The holders of such lands may supplement their holdings by either purchase or long-term lease of additional land so as to make the whole area a compact block for economic cultivation and for pursuit of subsidiary occupations such as dairying, poultry-keeping, calttle-breeding and so on. The members work on the pooled lands in accordance with the directives given by the Committee elected by themselves and the instructions of the Manager. The ownership of land pooled remains with each individual member and is recognized either by payment of dividend or rent in proportion to the value of the land pooled. The produce of the pooled lands is received and disposed of collectively. Out of the sale-proceeds the following charges are met :—

(a) Expenses of cultivation.
(b) Payment for the use of land.
(c) Wages of labourers.
(d) Cost of managing the farm.
(e) Interest on borrowings.
(f) Depreciation on wasting assets or any other ordinary assets belonging to the co-operative farm.

After meeting all these expenses, net profits are arrived at. After providing for a Statutory Reserve Fund and other reserves, the balance is shared mostly by members in proportion to the wages earned and the balance, if any, is utilized in paying bonus to the members of the staff. The normal functions of a society of this type are :—the crop planning programme, the joint purchase of farm requisites, joint sale of produce and raising of funds for

land improvement, purchase of machinery and for operational expenses of the farm on the security of the farm land and other moveable and immoveable assets of the society. It may be noted that the organization of a co-operative joint farming society is rather difficult and complicated and it may not be feasible to start them in many places. The benefits of a co-operative joint farming society are derived mainly from the greater economic use of land and from the employment of more efficient technique. It is, therefore, necessary for the organizers of a joint farming society to have a clear grasp about the scope, objects, functions, responsibilities and limitations involved in the venture. The pooling of land, labour, machinery and other farm equipment required by a society is the first prerequisite for the attainment of its success. This implies that the society must have full control over the use to which the lands are to be put and the methods by which the productivity of land is increased so as to obtain the maximum yield from the land.

(8) **Programme of Development and Crop Planning.**—The development programme will include works of land improvement, sinking of wells, bunding of lands and the like. These development programmes will depend upon the ability of the society to obtain long-term loans from a State Land Mortgage Bank commensurate with the security the society can offer. As regards cropping programmes, it will involve in the first instance, a rough survey of the existing cultivation techniques, nature of crops grown and the arrangements that exist for procuring quality seed, manure and other improved type of farm equipment. For all these purposes short-term or long-term funds would be required. The Central Co-operative Bank of the district to which the co-operative joint farming society is affiliated should give short-term and intermediate-term loans. The extent to which such financial assistance will be forthcoming from a central financing agency will depend on the security offered by the society in the form of its paid-up share capital in the first instance and the effective first charge on the crops to be raised by it. A subsidiary agreement should be taken from each member authorising the society to mortgage his land for the loans raised by the society for land improvement. This has been rendered possible now in the case

of protected tenatns in the Bombay State owing to the amendment effected in the relevant provisions of the Bombay Tenancy and Agricultural Lands Act, 1948. It may be noted that owing to experimental nature of these farming societies, members are reluctant to mortgage their lands through the joint farming society and the land mortgage banks themselves may be unwilling to make loans for want of proper security. In such a contingency, it is for the State Government to come forward and make the requisite long-term finance or guarantee the loans granted by a central financing agency.

(9) **Pooling of Farm Equipment.**—The individual owner or tenant joining a joint farming society may have cattle of his own, cart, implements or other equipment, for which the society may not have full use. The society may of course be in need of efficient live-stock and other improved types of implements and farm equipment, and these can be accepted from members at a fair valuation if they are useful to the society. Rationalization in farming technique and introduction of improved farm equipment may often result in smaller units of human labour and reduce the use of farm equipment which an individual member may possess. Until the operational technique adopted by the society becomes more intensive and diversified, the position in regard to absorption of human labour or farm equipment of individual members may not improve of course, the society may give preference to the labour of members and the use of farm equipment at their disposal in return for payment of remuneration prevailing for such labour and for use of farm equipment at the particular time of the season. For some time at least in the beginning continuous work cannot be provided for all the members joining the society and the society may be called upon to ration out labour units of members in such a manner as to provide equal work as far as possible to all the members. In order to provide work for idle labour, the society may be called upon to include a programme of promoting subsidiary occupations on the farm and this must ultimately depend uopon the facilities that are available to the society in the locality and the resources it commands for these purposes.

(10) **How the work on the Co-operative Farm should be organized and paid for.** The Co-operative Planning Committee mentions that there are three basic questions which require to be answered in any scheme of co-operative farming which is based upon a pooling of individual holdings. These questions are :—

(1) What should be the unit of management ?

(2) How should the rights of members' ownership be rewarded?

(3) How should work be organized and evaluated ?

Mr. Tarloksing suggests that there are important advantages in taking the village wherever possible as the unit of management. Despite quarrels and factions, the village is the basic social unit of the community and is bound by definite loyalties and traditions. In taking the village as the unit of management we can reduce to smaller proportions several personal religious and tribal difficulties which tend to crop up if the area of a village is divided into say, five, seven or ten farms of 100 to 200 acres each, and are inevitable in any attempt to rationalise agriculture. Even with a radical change in agricultural technique the village will ordinarily be found to be a farm of sufficient size. The village will aslo be a convenient unit for organizing the shift into non-agricultural occupations within as well as outside the village of all those who will be displaced when agriculture is reorganized. Finally, if the village is organized as the unit of farm management, it can play an important part in relation to industrial development. In considering the solution of the second and third problems mentioned above, attention is invited to the following considerations :—

(1) Income from land is divided into two parts—income due to ownership and income due to work. The system of rents prevailing in any area gives practical expression to this distinction, although at present for various reasons land rents are excessive.

(2) So long as mechanized techniques are not introduced or until the village organization becomes so highly integrated as to be able to enforce a wage system in which remuneration depends upon the quality and quantity of work done and there are adequate sanctions against inefficiency, we must discover a principle for allotting work which carries its own internal incentive.

(11) **Fixation of Wages and Preparation of Wage Schedule.**— The fixation of wages for labour of members employed and of hire for the use of farm equipment, if any, belonging to members has to be done with great care. If they are fixed lower than those prevailing in the locality for similar work during the particular season, there is a risk that the members might shirk work on the society's farm. Hence there is demand for such labour from other quarters. If, however, the wage schedule is fixed higher than the rates prevailing, there is the further danger of the society working at a loss, and there would be little or nothing left for members pooling their lands to share by way of surplus profits. Thus a golden mean has to be struck and a fair scale may have to be prescribed taking into consideration the rates prevailing in the laocality at a particular time or season of the year. A part of the wages, say, 75%, may also have to be paid once a week or a fortnight or a month as is the usual practice in the locality and the balance left to be paid on the results of the working of the society when its annual accounts are made up. This arrangement for making an advance payment of a substantial portion of wages in cash must be regarded as equitable and fair, if we take into consideration the fact that individaul owners do not get any remuneration for work put in on the farm from time to time but are required to wait till the end of the harvest. What is more difficult to achieve in a society of this type if it is to be successful is the necessity for members to put in hard work in the true spirit of goodwill and comradeship and to have a proper sense of discipline to abide by the decisions of their chosen representatives on the Committee, and comply with the directives given from time to time by the executives in charge appointed to look after the details for the day-to-day work. The management has also to realize on its own part that if the members are expected to show unflinching loyalty to the society and whole-heartedly co-operate in all operational matters, a heavy responsibility rests on them to see that they hold scales even while dealing with the tenant members and to bring to bear on their actions a sense of justice while dealing with members. A society of this type is in a sense a concrete expression of the principle of 'Each for all and all for each' and that is why co-operative endeavour of this type is regarded as a sort of innovation which the peasant is not apt to take kindly to. The Co-operative Planning

Committee wrote in this context : "Probably the best way to overcome peasant dislike of such an innovation would be to get the scheme successfully working in one or two villages, and then give the widest publicity in the form of leaflets and wall notices to the economic benefits obtained, at the same time urging the peasants of neighbouring villages to visit the experiment and satisfy themselves on the spot."

(12) **Distribution of Profits in a Joint Farming Society.**–A Joint Farming Society represents various interests in agricultural land such as landlords, ordinary and protected tenants and landless men working on the farm. The question of fair and equitable distribution of the distributable surplus in the society presents, therefore, certain difficulties. The share which the landowners or tenants who have pooled their lands in the co-operative farm need not exceed what they would ordinarily have got under the provisions of any law for the time being in force in the area from their tenants or from the society to which the lands are sub-leased. The following principles may, therefore, be observed for arriving at net distributable surplus in a joint farming society, and allocating a share in such surplus for the interests concerned. (*Vide* Bombay Manual for Co-operative Societies, Bombay State, page 289).

(1) The ordinary and protected tenants should be entitled to receive only wages in respect of work put in on the farm and a fair share of the surplus profit earned by the society during the year in proportion to the wages paid to them. In respect of the land that is pooled the tenant or the landlord, as the case may be, would be entitled to receive a land dividend or rent which is fair and which is generally payable on similar lands in the locality in which the society is situated.

(2) The terms and conditions in respect of rent to be paid should be reviewed every five years.

(3) The society should take upon itself the responsibility for payment of a rent direct to the landlords in respect of the lands pooled by the tenants in the co-operative farm.

(4) The rent payable may be reviewed earlier than a period of five years if the tenancy legislation and notifications issued thereunder in particular regions so require.

(5) The crop share which a landlord is entitled to get from his tenant should be necessarily commuted into a cash payment by evaluating such a crop share the landlord is entitled to.

(6) Landowners pooling their lands should be eligible to receive only that much rent that is mutually agreed upon, regard being had to the share that may have been fixed in the tenancy legislation in the region in which the society operates.

(13) **Co-operative Farming under the Five-Year Plans.**—The Planning Commission has laid great emphasis on the development of co-operative farming in the country during the First and the Second Five-Year Plans. Our Prime Minister also has, in many of his speeches and on many occasions, underlined the need for reorganizing our agriculture if increased agricultural production and improvement of living standards of the people are to be brought about. Despite all this emphasis, very little has been achieved and about a thousand societies have been established in the country, 70% of which are accounted for only in three States of U.P., Punjab and Bombay. A very few farming societies have been successful and most of them have not been a success at all for want of guidance or necessary atmosphere for their success. The reasons for the limited success of co-operative farming in this country are not far to seek. There are two schools of thought in the country: one advocating the development of co-operative farming and reorganizing our agriculture on co-operative basis and another holding that co-operative farming, except in one or two forms, is utterly unsuited to the genius of our people. Arguments for and against co-operative farming are marshalled below in the subjoined table : (These have been taken from the Report of the Indian Delegation to China on Agrarian Co-operatives and monograph on co-operative farming prepared by Raj Krishna, L.C. Jain and Gopi Krishna and published by the Indian Co-operative Union, New Delhi).

(14) **Arguments against Co-operative Farming :—**

(1) Co-operative farming is alien to the genius of our people.

(2) Our farmers have a strong attachment to land and co-operative farming can be brought about only through coercion, which is repugnant to any democratic country.

(3) A co-operative farming society would do away with the growth of farmer's personality, because it leads to the creation of a highly managed and institutionalized society. Thus it hinders ultimately development of parliamentary democracy.

(4) In a co-operative farm, farmers are apt to lose all initiative, working as they will be as mere labourers, and hence production will fall and costs might increase.

(5) The right course to adopt would be to promote service co-operatives for the provision of credit, supplies and marketing, which will secure to the community all the advantages of co-operative farming, avoiding at the same time, disadvantages such as loss of initiative, fall in production and efficiency. Experience of Japan is pointed out as a good pointer to our problems.

(6) The fundamental problem in India is essentially one of adverse land-man ratio and co-operative farming can hardly be a corrective.

(7) The disadvantages of efforts associated with co-operative farming outweigh the advantageous resulting therefrom.

(8) Co-operative farming, because of its rationalizing various processes involved in agriculture, would throw a certain number of people out of employment. This would further aggravate the problem of unemployment. Unless sufficient employment opportunities can be developed for absorbing people, thus thrown out of employment, into other sectors of economy, co-operative farming, if developed on a very large scale, would raise difficult, social, economic and political problems. The progress of co-operative farming has, therefore, to be correlated to the development of employment opportunities elswhere in the economy—which is essentially a slow process.

(9) Reorganization of agriculture on co-operative lines would raise administrative problems of considerable magnitude. Co-

operative farms would require for their success managerial skill of a high order, which can be developed only gradually and not immediately.

(10) Co-operative farming, being essentially socialistic in its concept, is ill-suited to the capitalistic order of society where large inequalities exist and it has, therefore, very little chance of immediate success.

(11) Increased production in agriculture in China through farming co-operatives is held as a model for us to emulate, but it may be pointed out that increased production in China is the result of the capacity of the Chinese peasant for hard work and this hard labour pays at present a high dividend because it is supported by credit, improved seeds, better implements, better marketing facilities and advantages resulting from peace and security in the land. Chinese are no doubt making rapid strides in agricultural production, and they have chosen to collectivise their agriculture not because it was necessary for increasing agricultural production but because it was necessary for the requirement of their political philosophy. Without any co-operative in production, a higher yield in agriculture is in evidence in Japan.

(12) Experience of co-operative farming in foreign countries points out that joint farming has succeeded only in a few places and only when it is backed up by strong religious faith or necessiated by conditions of extreme distress or political pressure.

(i) In the words of Prof. Venn of Cambridge, co-operative agriculture, pure and simple, has everywhere proved a failure from philanthropic efforts of individual landowners of the early 19th century down to the post-war colonies provided for ex-servicemen by the State.

(ii) From a U.N. Survey of European agriculture it is found that "While co-operation in buying, selling and processing has been practised in many Western European countries and use of machinery and co-operative ownership is gaining ground in a number of countries, co-operation in the process of farming exists only in rice production as an isolated experiment, with co-operative

stables or as a remnant of old-time common cultivation in some Southern countries.

(iii) In the Welsh Land Settlement Societies established in Britain with Government assistance, progress is not noteworthy despite favourable prices and substantial outside contributions of capital and aid. From the point of view of co-operative organization they have not shown much progress.

(iv) In the Italian Braccianti, the group siprit is relatively strong because of shared adversity, but lands are allotted to individual families. Some farming operations, viz., ploughing, sowing, manuring and marketing, are jointly carried out, while others such as pruning, weeding, thinning, dressing, picking are performed by individual families.

(v) In the co-operative farms set up under the Farm Security Administration in U.S.A. in the 1930's, even economic adversity failed to create the co-operative siprit. These farms did not achieve much success in the co-operative field for the reason that the farmers were mainly drawn from the lower strata of society. They had not got sufficient training or eduction nor were they imbued with ideals of co-operation. There was no common bond, nor ideals inspiring them to carry out their mission. The co-operative feature in them was regarded as a meaningless legal device. The Government in promoting them lost enormous funds and most of them were disbanded after 1934.

(vi) The Agricultural Settlements in Palestine were established under very extraordinary circumstances : "If we take the Kvutza alone in which ownership, work and consumption are collective, its members living under conditions of extreme comprehensive co-operation, comprises only a seventh of the total rural and about a twentieth of the whole of the immigrant population. Even in Israel, besides the Kvutza, other types of co-operatives have grown in which individualistic elements are prominent. In the Moshavim and Moshavi-Ovdim, members work on their own plots on an individual basis and are personally entitled to the products of their labour, although purchase and marketing facilities are co-operatively provided. The Israel experiment can hardly

serve us a model for general application where similar conditions do not exist."

(vii) Even in the famous Ejidos of Mexico, it is learnt that only one-third of them were jointly cultivated and the rest were worked along individual lines.

(viii) The success of the co-operative collective farms in Saskatchewan (Canada) is due to abundance of prairie land, shortage of of labour and the consequent advantage of extensive mechanised cultivation. Nevertheless, of the ploughed area of the Province only about 1% is farmed collectively.

(ix) Even in Soviet Russia, a series of measures were taken to increase agricultural production by making more use of the very same individualist incentives of the peasant, which were condemned and sought to be rooted out all these years. Taxes have now been cut, compulsory delivery quotas are reduced and price paid to farmers increased. They have been encouraged to grow more on their private plots and to breed their own stocks. The individualism of the Russian peasant was clearly in evidence during the first months of German occupation of the contry when the peasants were free to act according to their own wishes, and in all cases they dissolved the Kolkhoz farms at once and turned to individual farming. The young Kolkhoz members were no exception.

(x) In Eastern Europe, recent attempts at collectivisation through administrative pressure on the Soviet model have produced similar results. It is only in Bulgaria that the collective farms cover as much as 50% of the agricultural area. Even here the recent experience of Shri B.J.Patel, who toured the land extensively, shows that these collectives are breaking up. Elsewhere in Eastern Europe, their role is much more limited. During the last three years, in Eastern Europe, a process of disintegration of the collective farms has been going on. In Czechoslovakia, some 40% of the farms were not paying their way and a large number of them were permitted to disband in the autumn of 1953. In Yugoslavia, more than half of the collective farms have been dissolved since 1951 under the new policy, which permitted peasants to withdraw from them. In Hungary, peasant dissatisfaction was so great that even with a police State,it constituted an element of such

basic instability that almost half of the collectivised households have left the socialist sector.

(xi) **Chinese Experiments.**—There has been a phenomenal growth in the number of farmers' co-operatives in China during the last three years. Their number rose from 100,000 in the spring of 1954 to 1950,000 in December 1955. The ultimate aim of the Chinese Government is of course the establishment of completely collectivised farms run by the State. Most of these farms are of the elementary type in whicn the land pooled is still privately owned and a fixed land dividend is paid for its use. Only large implements and some of the livestock may be contributed by members on a rental basis, or on instalment sale. The peasants have been and are being made to join these co-operatives mainly through force or threat of force or irresistible administrative pressure exercised through discriminatory taxes and other measures. An increasing number of elementary co-operatives are bieng converted into advanced collectives in which even the theoretical ownership rights and land dividend are abolished. Shri P.N. Thapar, Secretary to the Ministry of Agriculture, Union Government and a member of one of the high level Indian Delegation to China, observes : "It is too early to say whether co-operative farming itself as distinct from various kinds of assistance that has been given by the State has led to any increase in production. In any case, the average yield of these farms is not yet higher than the average yield of good individual farmers in the pre-war years. Some of the agricultural experts told us that they expected from the introdcution of co-operative farming alone an increase of yield to the extent of 10 to 15%. There is no experimental or scientific basis for this statement. The additional yield is mainly the result of hard work, improved technique, better irrigation facilities, increased use of fertilisers and improved seeds. In India, where social and political conditions are different, where Government works through persuasion and not force, and where the small peasant has not been prepared for such a change, it would be a great mistake to press them on the people on a very large scale."

(xii) A U.N. study concludes that although for many decades attempts have been made in various countries throughout the world to achieve success in collective or communal farming they

have made comparatively little impression on the basic organizational structure of agriculture, which remains that of millions of individual farms.

(xiii) Indian experience with co-operative farming in some states simply confirms the foregoing conclusions. Though detailed evaluations of such experiments are not available, recent surveys throw some light on the degree of co-operation that prevails in them, and the difficulties experienced in introducing and continuing joint cultivation.

(a) **Ganga-khadar Area.**—The Agrarian Reforms Committee that visited some of the settlmetnt farms in India found that for Kharif sowing, means of production were pooled and harvesting was done jointly. When, however, Rabi ploughing and sowing commenced every settler-family worked individually on its own ten acres and there was no co-operation in the operations of cultivation and harvesting. The reason given was that joint farming did not work well and there were disputes about one individual working harder and another avoiding work. Further, the distribution of the harvest caused heart-burning among people who were otherwise living together on most friendly terms. In Jhansi District, the peasants complained of coercion and threat. One of them alleged that he was threatened with imprisonment if he refused to join the co-operative farm. There was also a widespread complaint about non-payment of wages.

(b) **Land Colonisation Societies in Madras.**—In the Madras State, land colonisation societies for the settlement of ex-servicemen and landless workers have been successful. But they are hardly a venture in joint farming. The ideals of joint cultivation, joint harvesting and common profit-sharing have been recommended to the colonists, but each colonist prefers to cultivate his land on his own account and to keep to himself the fruits thereof.

(c) **Delhi Societies.**—The experience in some of the refugee resettlement societies in the villages of Delhi State is not also very happy. The first two or three crops were raised on a collective basis, the next two on a group basis and all the rest on an individual basis. The continuation of joint cultivation became practically impossible because of factionalism among the members and the

Executive Committees, disputes about the relative intensity of work put in by different members, mistrust regarding the use of funds by the Executive. Gradually, implements and calttle had to be distributed on an individual basis, although they were obtained on a collective basis. In the beginning, produce was distributed equally among members after deducting expense and reserves. But after reversion to individual farming, this had to be given up. Differences about the assignment of work, the distribution of proceeds and loan shares have been so acute that even the constant guidance and leadership of the Indian Co-operative Union and the presence of many strong members in the co-operatives themselves failed to compose them. There has been constant pressure for individual allotment of land and complete individualisation of farming, although land was initially allotted for joint cultivation.

(d) **Baroda Experiments.**—The study of the co-operative farming experiments in Baroda reveals that the farmer's attachment to his own land is very strong, and the question of measurement of quantity and quality of work put in by members for joint farming society is complicated. So, in the early stages, to generate an atmosphere for co-operative farming, better co-operative farming societies should first be established in order to pave the way for the joint farming or the collective type of society.

(e) **Co-operative Farming Experiments in Bombay.**—There were about 264 co-operative farming societies in the State at the end of the year 1954. Out of these all except 40 have been organized on Government lands for the settlement of the landless workers or backward class people. Out of the remiaining 40, cultivation is collective or joint only in about 20 societies. Where collective cultivation has been tried in settlement societies, it has been the experience in the Bombay State that in a large number of cases the wages distributed and the maintenance advances given in the course of a working season have far exceeded the total value of produce of the society. The members regard the society as something external to themselves like some kind of Government farm, where they are merely employees. On the other hand, in a family-holding system the concept of wages does not come in, and though it may be a fact that the actual return from labour put in by a

member on his parcel of land is much less than the prevailing rate, he has no reason to feel dissatisfied with his lot. On the other hand, he is grateful to the society for having made available to him some land in cultivable condition. It is thus seen that at least in the farming societies which are established with the object of settling landless persons, the organization of cultivation on a joint or collective basis is not always practical, and from the point of view of the main purpose of the organization it may even prove to be dangerous. In the 40 societies referred to above in the Bombay State, it has been observed that only a few of them have maintained their joint farming character. Some of them have already succumbed to the innate urges of individual possession and management, and though they are co-operative joint farming societies in name, they have already reverted to individual cultivation. The only lesson to be drawn from the experiments so far made in Bombay is that organization of such a type is in the first instance difficult, and it is still more difficult to preserve its character after organization. This being the case, the merits of joint farming co-operatives in respect of its ability to give better agricultural production has not been properly tested at all. It is very important to demonstrate in practice the supposed benefits of co-operative joint farming before any large-scale movement is launched. In most cases, increased production is due not to co-operativisation but better irrigation and greater capital resources made available to these societies by the Government.

(f) **Surveys of Co-operative Farming Societies by the Planning Commission.**—The experience of the Planning Commission, which recently carried out a survey of 23 co-operative farming societies in the country goes to confirm the same conclusions reached above. In thirteen of these societies investigated, members had pooled their lands, but in ten out of these thirteen, most of the members or practically all of them did not do any farm work at all. These so-called farming societies must be either settlement societies or societies run on capitalistic lines by groups of absentee landlords having all the work done by hired labourers—a sort of capitalistic estate farming formed with a view to securing privileges or concessions given to co-operative farms. This

being the case, the question whether cultivation is joint or individual is of no importance, as most of the work done is by hired labour. Out of ten societies in which all or most of the members worked on the farm, six have been established on Government land, and farming operations are carried out only in three of them. In only three cases, the members contributed bullocks and implements. In other cases, these were provided by the societies themselves. In most cases, wages were paid for hired workers and to working members at a rate varying from As. 12 to Re. 1-8 per day. No attempts have been made to differentiate between different types of farm work done by members for purposes of payment of wages. The result is that where members worked, there were continuous disputes about the quality and quantity of work put in by different members, or else the work was done indifferently, and the members' interest was no more than that of hired labourers. Where members worked, the wage bill also formed a very high percentage and sometimes exceeded the proceeds raised on the farm. In two of the societies where owned land was pooled and made withdrawable after five years under the bye-laws, some of the members withdrew their lands immediately after the expiry of the period. Two of the societies also were reported to be on the verge of liquidation. In two of the societies, reversion to individual farming took place after an intial period of joint farming. In others, the work was hampered by quarrelsome members who wished to revert to individual farming as soon as possible. In the other societies, bigger land-owners were reported to have appropriated an unfair proportion of the proceeds of land as land dividend, and wages for their servants and the small farmers were as a result eager to withdraw from such societies.

(15) Arguments in favour of Establishing Co-operative Farming Societies.

(i) Co-operative farming can be introduced in a limited sector of agrarian economy. An ideal agrarian economy will be one of family farms. A society consisting of family farms would provide scope for the development of farmer's personality. All farms that constitute viable units should be retained as family farms.

(ii) The inefficiency associated with co-operative farms would greatly be reduced by providing services and supplies through multi-purpose co-operatives.

(iii) There is a limit below which farms even with all the aids implied in co-operative better farming societies cease to be economic and such obviously uneconomic units must be reorganized into co-operative farms. This approach was also recommended by the Congress Agrarian Reforms Committee.

(iv) If modern equipment and scientific practices for reducing cost and increasing output were to be taken advantage of, co-operative farming is the only remedy and is desirable.

(v) The per capita availability of land in India is about 1.6 acres per person or about 8 acres per agricultural family for the country as a whole. It varies from 1 to 2.6 acres in different parts of the country as mentioned below :—

(a)	North India	1.01
(b)	South India	1.17
(c)	Central India	2.57
(d)	East India	1.25
(e)	West India	2.29
(f)	North-West India	2.59

With a steady increase in the growth of population, the pressure on land is increasing steadily. It is increasingly becoming clear that there are no chances of this pressure relaxing either by diverting surplus population, to industry or by adoption of other measures. On the contrary, in terms of absolute numbers, there is a likelihood of further additions to the number of workers dependent on agriculture to the extent of 2 to 3 million at the end of the Second Five-Year Plan period. It will take sometime before this trend is checked with a view to stop increases in the number of people depending on agriculture for employment and subsistence. Thus reorganization of our agrarian economy is forced on us so as to provide increased employment opportunities within agriculture itself. As brought out in the Agricultural Labour Inquiry, about 40 % of the agricultural population consists of agricultural workers who have no land but who

depend upon theeir own labour for their maintenance. They get work for part of the year, and their wages being low, they eke out or just exist on a margin of subsistence. While this is so, there exists side by side a large work potential. At present less than 20 per cent. of the cultivated area receives irrigation. There is considerable scope for expansion of irrigation through wells, tanks, embankments. Due to soil erosion, large areas have gone out of cultivation. These are to be reclaimed and erosion of soil has to be checked. In areas that suffer from water-logging there is the need for drainage. From the Report on Agricultural LabourInquiry it is found that more than two-thirds of the cultivated area is comprised in holdings exceeding 10 acres and this area forms a good unit of cultivation in Indian conditions and there is scope for intensifying agriculture. The real difficulties implicit in Indian agriculture arise from the limitations inherent in family farming. Improvements on land may be those that can be brought about by the agriculturist through the labour of himself and his family members or may be those that can be effected by hired labour. Within a given price and wage structure in Indian agriculture, many improvements are not sufficiently remunera-ative, and the law of diminishing returns manifests itself earlier. It is, therefore, this factor that has been responsible for slow progress of land improvement in India rather than supplies and finances required for the purpose. In feudal times what used to happen was large works of land improvement were under-taken by the State or feudal chiefs on a mere nominal payment for labour. This system of land improvement by any institutions involving organised action was based on considerations of community's interests. Similarly, considerations of outlay and return apply with equal force to intensified agriculture except in cases where the work could be carried out by the agriculturist by the labour of himself and that of his family members. Cultivators holding more than ten acres depend partially or wholly on hired labour and due to considerations of cost and return, the degree of intensification cannot be high. The return on investment could be increased either by stepping up agricultural prices or by both. With the present wage level in agriculture, further depression is impossible, but on the contrary, with the adoption of legislation to increase the remuneration for agricultural

labour, in many states, there will be an addition to the cost if it is given effect to, with the result that it would discourage improvements in the existing conditions.

(vi) Limitations of service co-operatives like better farming societies, multi-purpose societies, credit marketing co-operatives. As already mentioned, in family farming considerations of outlay and return put a check on undertaking many improvements which are not remunerative from the point of view of individual farmers. No cultivator can take them up, nor can a service co-operative finance them. Most cultivators have dwarf holdings and the gap between their actual income and requirements of the bare necessities of life is large. The additional income which may be derived from improvements financed by service co-operatives may just cover only a small portion of this gap. Once a small farmer gets into debt, it is difficult to make recovery from him. These factors limit the scope of service co-operatives. Further, there is a question of financial resources adequate enough for financing agricultural improvements. Schemes for industrialisation and development of communications have already put a heavy strain on the resources of our country and limits of deficit financing have already been reached. In the circumstances, finance for development of agriculture has to be found from the savings of the agricultural sector itself. In an agrarian economy based on small family units in farming, savings and capital formation are severely limited. In small holdings the costs exceed the income. In other words, the small farmers do not get an adequate return even for their labour. The medium holdings also show little surplus. In comparatively larger holdings, some savings are possible. The reason for higher cost there is to be found in the heavy investment on fixed capital in the shape of draught cattle and implements. Though land is scarce and capital resources are limited, they are at present wastefully employed. As long as lands continue to be cultivated in small holdings, wastage of capital resources is rather difficult to avoid and economies of large-scale farming such as reduction in cost and specialization in managerial cost will not be available. Mere service co-operatives can hardly correct this waste. The agricultural economy will have to be

so organized that a planned use of land, man-power, capital resources, and managerial skill become possible. This calls for the pooling of land, man-power and capital resources by co-operative action. In a co-operative farm, the considerations of outlay and return apply over a much larger area. The pooled area becomes a single farm and pooled labour a single family, for purposes of management. It is possible to intensify agriculture over the entire area and to undertake improvements. Fruit and vegetable growing can be taken up. Dairying can also be developed. A part of the labour surplus can be devoted to improving village communications and housing, and to providing other social amenities in the village. The requirement of draught cattle can considerably be reduced and fodder supply could be fed to milch cattle, so as to increase the milk supply. Capital resources will be utilized more fully and costs will be reduced. Cottage and small scale industires can be developed out of the released resources. With the organization of producers' co-operatives, the State will have to deal with less than half a million co-operatives that become the organs of the State in implementing its welfare programmes. They will further provide opportunities for working together for different groups of people who stand apart now by communal and social divisions and thus they will bring about an intergration of the people into a living entity. As regards the objections, that co-operative farming will interfere with individual initiative or freedom and retard the growth of a farmers' personality and lead to a highly institutionalised society, it may be pointed out that agriculture offers varied opportunities for work and a cultivator is apt to retain initiative in all the processes of agricultural production. The dangers arising from an authoritarian atmosphere can be minimised by evolving suitable techniques of management for retaining individual initiative and freedom. In joining a co-operative farming society it is true that the farmer has to subject himself to group discipline and in fact, every group activity involves subordination of an individual's liberty to group discipline, and every planned development involves a measure of compulsion. How much loss of individual freedom is involved in a shift from individual to co-operative farming is a subjective matter. For some, the loss may be great, while for others it may be little; on

balance of consideration, it is felt that the advantages of co-operative farming outweigh the disadvantages.

In itself, co-operative farming, as any other village organization, should promote rather then retard the growth of democratic institutions at the base and at all levels. As regards the objection that in a co-operative farm the incentive born of private profit motive would be absent unlike in a private farm where the individual gets the full benefit of work in the form of private profit, which provides him an incentive for better work, it may be stated that norms can be evolved in India suited to the local conditions, for relating payment to quantity and quality of work, and it should be possible, as has been done in China, to ensure individual incentive in all the processes of cultivation to a high degree.

Agrarian co-operatives indicate the way for mobilising the national resources in which man-power plays the most dominant part. They offer a new hope for the millions of landless families. They are a historical necessity, in the opinion of the Patil Delegation to China, which observes: "The experience of China gives us hope that a peaceful transformation from family farming to co-operative farming is not beyond us.

(16) **Recommendations of the Patil Delegation to China, as contained in the Majority Report.** In view of the divergence of opinion existing in the country on the question of co-operative farming, we may agree with the Majority Report that a transformation from family farming to co-operative farming is no easy task. In accepting co-operative farming, a farmer has to change over to a new way of life. He has to subject himself to group discipline and to that extent he does suffer from a certain loss of individual freedom. In fact, every group activity involves subordination of the individual liberty to group discipline and every planned development involves a measure of compulsion. On the other hand, improved economic conditions resulting from co-operative farming will enlarge the freedom for the whole group and also for the individuals who are now denied the opportunities. The real issue, the Patil Delegation asks, is: Shall we sacrifice some of our individual freedom in the interests of economic

development and the well-being of the nation, and on balance of considerations, the Majority Report adds that advantages of co-operative farming are greater and far outweigh the losses that may be involved. This conclusions, however, is not shared by two of the members of the Delegation, nor does it appear to be supported by experience both Indian and foreign. Co-operative farming understood in the sense of pooling of land and pooling of labour for raising produce jointly is more difficult to achieve and can succeed only in specific areas and where conditions are specially favourable, e. g; in Gram-dan Villages where the minds of villagers are sufficiently prepared for group discipline and associative action, and a full-fledged programme of co-operative farming can be successfully worked out. This is the reason why Gram-dan villages are going to receive preference in the matter of opening Community Development Blocks. Instead of redistributing land in such villages, to individual landless workers or others, a co-operative farming society will offer better opportunities for successful working. The Majority Report rightly lays emphasis on creating a proper village leadership and effective administration, when it says: "These fundamental changes in the land sector cannot be carried out unless a sound village leadership is developed. Political parties will have to be better organized for work in the villages. At the same time, administration has to be made much more effective than it is today." We may wholeheartedly agree with the recommendations of the Majority Report when it observes : "In developing co-operative farming, two principles have to be kept in view. Firstly, the principle of voluntarism should scrupulously be adhered to. Secondly, a member should be free to leave a co-operative at the end of the season, should he so desire. If the cultivators have to be persuaded to join the agrarian co-operative voluntarily, it will be necessary to convince them through successful demonstration that such a programme is practicable and justifies all claims made for it. In any democratic system it is the people's reaction to the programme that will govern not only the actual progress but also affect the intensity of conviction of the national leadership. Hence the great importance of a demonstration programme on which the whole success of a national programme would depend.

(17)—Other Important Recommendations: of the Majority Report. After making out a case for the establishment of co-operative farming societies in the country, the Report goes to make recommendations in regard to their organization, management and the assistance they need from the State etc. Their recommendations are listed below :—

(a) **Organization and Management.** (i) Co-operative farming implies pooling of land. Wherever lands are pooled by individual cultivators, joint farming should be encouraged. On Government lands or surplus lands, it is desirable to organize collective farming societies.

(ii) Only such persons as agree to participate in the day-to-day work of the society should be admitted as members of co-operative farming societies.

(iii) For curbing a tendency towards bureaucratisation, the office-bearers, managers and other employees of the society should be required to participate in the farm work for a minimum number of days.

(iv) Depending on the pattern of crops, co-operative farming societies in rice tract should have an area of about 35 to 50 acres of land, whereas in wheat and cotton zones the area may be 60 to 100 acres. The minimum number of members should be 7 to 10.

(v) Where two or more societies are formed in a village, they should be encouraged to have a joint committee for securing services and supplies at the cheapest rates.

(vi) If draught cattle are pooled, they should be valued on a fair basis and the amount should be credited to the share capital or taken as deposit refundable in suitable instalments. Similarly, the implements pooled by each member should be valued on a fair basis and the valuation should form part of the share-money to be credited to the member.

(vii) Ownership dividend should be fixed on the basis of productivity of land as it stood at the time of pooling of land. This is necessary to ensure that an entire increased production is shared by the members in proportion to work put in by them.

(viii) Development of suitable techniques of work distribution which is of the greatest importance to co-operative farming should receive the highest priority. Chinese method of group and team working could be adopted, wherever possible. Alternatively, it may be possible to centralize the principal operations, subsidiary operations being carried out in small groups or on family basis.

(ix) In evaluating the daily performance of each member the quality and quantity of work put in by him should be taken into account and objective standards for assessment of work should be laid down. At the end of a season the net produce (i. e. the gross produce minus expenditure and the ownership dividend) should be distributed among the members, as payment for labour in proportion to the work put in by each.

(b) **State Assistance.**—(i) The principle of State partnership should be applied to co-operative farming societies and all facilities given to large-sized credit societies, marketing societies etc; by the National Co-operative Development and Warehousing Board should also be made available.

(ii) The policy of State purchase and guaranteed prices has helped the agrarian co-operatives in China and unit co-operatives in Japan. Similar measures are necessary in our own country. If this cannot be done on a large scale, for all co-operatives, the Government should agree to purchase the produce of co-operative farming societies at a minimum price which should be indicated in advance.

(c) **Training, Education and Publicity**—(i) For spreading the knowledge and information about co-operative farming among the villagers, about two lakhs young men should be selected and trained in the techniques of co-operative organization and management and planning production programmes in the next four years.

(ii) Village level workers and other members of the National Extension Service should be given training in matters relating to co-operative farming and the training centre should be located in areas where co-operative farming societies exist, so that training in practical working may be imparted.

(iii) The programme of training should be drawn up in consultation with the Central Committee for Co-operative Training.

(iv) The Government of India should set up half a dozen regional training centres for training instructors. The entire cost of running these training centres should be borne by the Government of India. For training centres organized by the State, 25 per cent of the cost may be borne by the State Government and the remaining 75% by the Central Government.

(d) **Administrative Machinery.**— At the national level, the responsibility of planning and promoting programmes of co-operative farming should be entrusted to the National Co-operative Development and Warehousing Board. There should be a Standing Committee of the Board to deal with matters relating to co-operative farming.

(ii) To assist the Board and for advising the State Government in the formulation of programmes for co-operative farming, the Ministry of Agriculture should have a Special Officer for Co-operative Farming, who should be helped by subject-matter specialists.

(iii) For planning and executing programmes of co-operative farming, each State should have a Committee under the chairmanship of the Minister in charge of Co-operation.

(iv) This State Committee should have a Sub-Committee of its own of which the Development Commissioner may be the Chairman.

(v) Each State may consider the appointment of a Special Officer for Co-operative Farming and subject-matter specialist. He will also need the assistance of Special Auditors for Co-operative Farms and a few assistants who could go round and guide the work in the field. The cost of this staff may be shared equally between the Centres and the States.

(vi) The work at the district level may be co-ordinated by a Sub-Committee of the District Development Board presided over by the District Officer, and this Sub-Committee should include among its members representatives of co-operative farming societies, other co-operative societies and Panchayats.

(e) **Land Reforms.**—(i) The pattern of land reforms should be based on the principles that cultivation through hired labour should be discouraged and land should be made available to those who want to work on it. Every family should, therefore, be entitled to retain only so much land that it can cultivate through its family labour. The excess land should form part of a pool which should be cultivated co-operatively by groups of landless workers and small farmers who agree to bring into the pool their own lands.

(ii) Rents should be payable for the surplus lands. The resident cultivators may be paid rent at a rate that is prescribed for leased lands.

(iii) The rent should be determined in cash or a fixed quantity of produce on the basis of the existing productivity of land. The State should accept responsibllity for the payment of rent and interpose itself between owners and the co-operatives. The State may utilise the village agency for discharging this obligation.

(18) **Statistical Data showing Progress of Co-operative Farming Societies in the Indian Union.**—Co-operative farming societies of various categories including land colonization societies, assisted by Government in various ways such as tax concession, grant of loans and subsidies, allotment of waste lands, have made varying degrees of progress in different States in respect of land reclamation, adoption of improved agricultural practices etc. The following paragraphs indicate the progress made in a few States:—

(i) **Andhra.**—Land Colonization Societies are mainly encouraged in the State. There were 16 societies for cilvilians with a total membership of 2128, of whom 1823 were active colonists at the end of the year 1954. These sixteen societies were assinged 7802 acres of land, of which 6739 acres were reclained and brought under the plough. Apart from providing free services of staff for the supervision of these societies during 1953-54, the Government also sanctioned certain types of financial assistance for these societies for the purchase of cattle, manure etc., partly by way of loan and partly by way of grant. The Government further waived the land revenue assessment and water cess for the first three years. Seven more land colonization societies were formed

for the resettlement of ex-servicemen and they consisted of 1063 members, of whom 904 were active colonists. These societies were assigned 6272 acres of land, out of which 3761 acres were reclaimed and the remaining acres were brought under cultivation. They were in receipt of financial assistance from the Central and State Governments and also from the Post-War Services Reconstrution Fund Committee.

(ii) **Madras.**—At the end of 1954, there were 24 land colonization societies for civilians in the State, of which 22 societies cultivated Government lands, while the other two private lands. 8556 acres were assigned to them or taken on lease and of these 5937 acres were reclaimed and made fit for cultivation. For the purchase of bullocks and implements and for reclamation of land societies cultivating Government land were given financial assistance by the Government in the form of loans and grants amounting to Rs. 26,359 and Rs. 21,495 respectively. There were also six reclamation societies for ex-servicemen with 464 active colonists among their members. Of the 6553 acres of land allotted to them, 2614 were reclaimed and 1167 acres were brought under cultivation up to the end of 1954.

(iii) **Uttar Pradesh.**—Co-operative Farming Societies of different types made some progress in the State during 1953-54. Towards the close of 1954 there were 104 farming societies, most of which were joint farming societies in which the resources of members were pooled. The total area covered by them was 35,782 acres, the average per society being 345 acres. Their total working capital stood at Rs. ·26.10 lakhs. The use of improved seeds and chemical manure, steps to improve the breed of cattle and the provision of medical facilities to the members were among the characteristic features of the working of these societies. There were also 171 land settlement societies for ex-servicemen and displaced persons from Pakistan with a membership of 9562 at the end of 1953-54. Financial assistance was given to them by Government for various purposes such as the purchase of bullocks, construction of houses. The settlers in these colonies maintained milch cattle and poultry farming as subsidiary occupations.

(iv) **Punjab.**—There were 215 joint farming societies in Punjab at the end of 1953-54. 44062 acres were brought under

joint cultivation and the total agricultural ouptut was valued at Rs. 2.38 lakhs during 1953-54. They made a net profit of Rs. 41,299.

(v) **Delhi.**—There were ten societies engaged in collective farming consisting of displaced persons at the end of 1953-54, and they were assigned 2759 acres of evacuee agricultural land for resettling the displaced agricultural families from Pakistan. These societies brought an additional area of 1200 acres under the plough in 1953-54, raising the total area under cultivation to 7276. There were, in addition, three better farming societies.

(vi) **Travancore-Cochin.**—There were 17 co-operative farming societies, which cultivated 10143 acres of land. They produced 54175 *paras* of paddy. The State Government assisted them by giving a lease of Government land and making other financial assistance, available to them.

(vii) **Bombay.—The Co-operative Farming Scheme.**—A scheme for the development of co-operative farming societies was in operation in the State. This scheme was sanctioned by Government in the year 1949 as a post-war reconstruction scheme for the organization of co-operative farming in the State. The scheme visualised in the first instance the starting of 112 co-operative farming societies of various types during the succeeding five-year period. The scheme provided for the establishment of three co-operative farming units for the three linguistic divisions of the State. Each unit consistted of one District Co-operative Officer, one Agricultural Officer and one Surveyor. The primary duty of this staff was to carry out intensive propaganda, explain the benefits of co-operative farming, make a detailed survey of the land, available for co-operative cultivation regarding their soil-productivity, natural resources, lines of future development, prepare cropping schemes and schemes for contribution of land, labour and capital, so as to secure optimum yields and equitable distribution of the produce between cultivators and owners of capital resources, and take other steps for organization of co-operative farming societies. Under this scheme Government assistance was made available to the co-operative farming societies in the following forms :—

(i) Land revenue was remitted for the first year where owners of lands pooled their lands for joint cultivation or where waste lands were taken up for development by farming societies.

(ii) Long-term loans were granted at concessional rates of interest for the purchase of costly agricultural machinery or for other works of land improvement and development.

(iii) Financial assistance was also made available to such societies by way of loan of 75% and subsidy of 25%of the total cost of construction of godowns for storage of agricultural produce and implements and for construction of catttle barns.

(iv) Co-operative farming societies were also eligible for subsidies, for purchase of seed, manure and implements to the extent of Rs. 1500 each during the first year and Rs. 750 for each of the second and third years according to the size and nature of co-operative farm.

(v) Where co-operative farming societies took over Government waste land on lease, the cost on account of development was either to be borne by Government in the first instance and treated as loan or in case the societies themselves shouldered the responsibility of their lands, 25% of the cost was treated as outright subsidy and the balance of 75% as loan at a concessional rate of interest of 3% subject, however, to the condition that Government reserved the right of scrutiny of estimates of cost of development and could refuse assistance if the cost was found to be disproportionate to the benefits accruing on account of the scheme.

(vi) Co-operative farming societies formed for backward class people or in backward areas were eligible to receive short-term loans at a nominal rate of interest which took the form of contribution towards the share capital of societies, to enable them to enhance their borrowing capacity, and to obtain short-term finance from the central financing agencies for cultivation expenses.

(vii) In the case of societies formed of backward class people, the lands are given by Government usually on new tenure and there would thus be no security for loans obtained by such societies. That is the reason why a special provision was made for waiving the conditions in regard to the security of immoveable property for Government loans.

(viii) If such societies needed finances from central banks to whom they could not offer additional security, Government was also prepared to consider the question of guaranteeing the margin of losses to central financing agencies in deserving cases. Under the stimulus of financial and other aids given by Government to these societies the number of farming societies in the State gradually increased and their number stood at 264 at the end of 1953-54. Of these, 80 were joint farming societies, 54 tenant-farming societies and 100 collective farming societies. All these 264 societies had a membership of 9384 and covered an area of 67,267 acres, of which 30,079 acres were brought under cultivation. There were, in addition, 86 better farming societies. In 1953, the Government of Bombay sanctioned the scheme of co-operative farming for being implemented during the period of the Second Five-Year Plan. It is proposed to start under the scheme 100 new societies during the Plan period. Of these 50 societies would be formed on private lands and 50 on Government waste lands. Those societies which are already registered with Government waste lands but which have not been in receipt of Government assistance so far will also be eligible for assistance during each year of the Plan period. It is estimated that inclusive of the new societies to be formed, there would be in all 140 societies that would be eligibale to receive financial assistance. The forms and extent of financial assistance for these societies under different heads are detailed below :—

(a) **Financial assistance for purpose of land improvement.**

(i) Rs. 8000 loan and Rs. 2000 subsidy	}	For each society with Government land.
(ii) Rs. 2000 subsidy	}	For each society with private land.

(b) **Seed and Manure.**—The subsidy for the purposes of purchasing seed and manure is proposed to be granted to a co-operative farming society with Government waste land at the rate of Rs. 1500 per society.

(c) **Managerial Expenses.**—Most of the co-operative farming societies have been given Government waste lands and a majority of members of such societies are backward and illiterate. The managers of these societies are expected to plan out agricultural

operations in such a way as to make them economical and profitable, besides seeing that the Government assistance is properly utilised. Further, it is also necessary that all farming records as also records in respect of subsidies, loans etc. are maintained regularly and upto date. Past experience has shown that managers appointed by the societies themselves or the agricultural assistants deputed to these societies by the Department of Agriculture are not equal to this task. In order to enable these co-operative farms to carry on their operations more efficiently, it is considered necessary to depute to each of them an agricultural officer in the grade of Rs. 80-5-100-8-140-E.B.-10-200 from the Department of Agriculture to work as a Manager of a co-operative farming society. It is also thought necessary to give training both theoretical and practical to these officers for a period of six months. Ten such trained officers will be available for deputation to these societies each year and the services of each officer will be made available free of cost for a period of three years.

(d) **Subsidy towards Managerial Cost.**—In the case of those societies that do not stand to get the free services of the Agricultural Officers, financial assistance is made available in the form of a subsidy. Each society will be eligible to get Rs. 100 p.m. for a period of three years.

(e) **Contribution to the Share Capital.**—In order to enable co-operative farming societies to raise adequate finance from the central financing agencies, loans have been so far granted by Government to farming societies as a contribution to their share capital. This policy is modified now, in that contribution to the share capital will be continued not as loan but as actual participation in the share capital. This is considered to be essential because a Government loan carries a first charge on the assets of the society, while the central financing agency making loan gets no security for money lent to the society. But Government's contribution to the share capital can be regarded as the society's own capital which forms the basis for raising finance. It is proposed to contribute Rs. 4000 towards the share capital of each farming society during the period of the Second Five-Year Plan. The Registrar, Co-operative Societies, Bombay State, is authorized to santcion loans to farming societies.

(f) **Intensive Development of Farming Societies.**—A number of different categories of co-operative farming societies have been registered in the State and it is proposed to select about 25 societies out of this number for intensive development, so that they can serve as a model for the other societies and agriculturists residing in the neighbourhood. It is a phased programme and development would be carried out gradually during the plan period. In order to fulfil the objectives of the scheme, the following steps are proposed to be taken :—

(i) Provision of efficient personnel for management.

(ii) Drawing up plans of development, both short-term and long-term, so as to make the best use of the resources available on the co-operative farm and for providing maximum possible employment to members.

(iii) Provision of financial assistance, both short-term and long-term, in the shape of loans and Government subsidies. Long-term loans would be available for purposes such as provision of livestock, implements for development and improvement of land, construction of wells, bunding, levelling, installation of pumping sets, wire fencing, construction of cattle sheds and godowns. Each society selected for intensive development will be granted loans on the following scale :—

ITEMS	AMOUNT
(1) Land improvement.	Rs. 10,000 maximum at the rate of Rs. 100 per acre
(2) Construction of wells.	,, 10,000
(3) Bunding and Levelling.	,, 6,000 maximum per society
(4) Installation of pumping sets.	,, 15,000 mximum per society
(5) Purchase of implements and accessories.	,, 10,000 maximum per society
(6) Cattle sheds and godowns.	,, 6,000 maximum per society
(7) Subsidiary industries.	,, 20,000/- maximum per society

(iv) Keeping a regular watch on the societies selected for intensive development.

(v) Grant of assistance, financial or otherwise for the development of subsidiary occupations like dariying, poultry breeding, sheep breeding on the co-operative farm.

(vi) The following additional staff was sanctioned in the first instance by Government for the implementation of the above scheme for the period ending 28th February 1957—

			Scale of Pay
10 Assistant District Co-operative Officers:		Rs.	100-8-140
1 Senior clerk.	...	,,	100-8-140
2 Junior Clerks.	...	,,	46-3-80-5-130.
10 Attendants.	...	,,	45 per mensem.

(19) **Recommendations of the Second State Ministers' Conference on Co-operative Farming held at Mussoorie** :—The Conference made the following prefatory observations :

The expression 'Co-operative Farming' has acquired a particular significance. Other forms of co-operation in agriculture such as co-operation in non-farm operations, that is, marketing, processing, obtaining special services like lift irrigation from tube-wells, can be secured without the surrender by each farmer of his right to manage his field as he chooses. Such co-operation usually goes under the name 'better farming'.

In the first plan it was suggested that all supplies to cultivators should be channelled through the multi-purpose societies. This system, however, was not fully tried. We suggest that in the course of second plan each block should have at least a few villages where such societies, viz., multi-purpose of large-sized credit societies, cover all the cultivators in a village and meet their needs.

Co-operative farming, however, necessarily implies pooling of land and its joint management. As such, it has certain obvious advantages in increasing agricultural production specially in the case of small farmers. It is able to secure better credit than is possible for individual members and results in better utilisation of land resources and bullock power. It is also able to develop better ancillary activities like sheep and cattle-breeding, poultry and dairy. The experience gained hitherto has, however, not established these advantages in a measure capable of attracting

individual farmers to establish such farms. It is only by the demonstration of success in the working of these farms that this movement can be expected to gain a momentum. Future efforts, must, therefore, lie in taking appropriate measures to make a success of the existing co-operative farming societies and the establishment of new ones. But the pace of future development should be such as not to court a failure by placing undue strain on the resources of States. With the aim as set out above, the Resolutions that have been adopted at the Conference are listed below :—

(1) As experience has shown that sound rural leadership is of fundamental importance to the success of this activity, the first step is location of suitable personnel capable of undertaking this work and training them for the task of organising and running such societies in their areas, and avoiding the inhibiting atmosphere of bureaucratic administration. Such training can be best imparted on the spot where existing societies are functioning successfully. The size of this programme would to some extent depend upon the number of co-operative farms that are planned to be started. But additional personnel in this category can always be useful in stimulating other types of co-operative activities.

(2) It is difficult to fix a definite target regarding the number of societies that should be started in the country. The objective should be to locate at least one such society in every National Extension Block during the Plan period. Progress in the first year will determine the progress in future years. About 500 experiments should be undertaken in 1956-57. These experiments should be carried out not necessarily at the rate of one experiment in each block but only in those N.E.S. areas where conditions are favourable.

(3) In addition to the assistance for co-operative farming recommended in the Second Five Year Plan a special subsidy should be provided for initial expense incidental to farming and the terms of financial assistance should be more liberal than in case of individual cultivators.

(4) Preference in consolidation proceedings should be given to a village where a co-operative farming society has been organized so that the area of the society forms one compact block. If a society

has been formed subsequent to consolidation operations in the village compactness of the area should be secured either by (i) making it obligatory on other holders in the area to join the society or (ii) by providing land of equal value elsewhere in the village, to those who do not join.

(5) A successful co-operative farming society is soon in need of ancillary occupations for its members. Financial and technical assistance for the development of such occupations should be provided.

(6) At the State level an organization consisting of the representatives of the Agricultural Co-operative and Cottage Industries Departments should be created and made responsible for the success of these societies. This organisation should work in liaison with the Action Committee which exists in the States to secure speedy execution of the Cottage Industries programme. A special section should also be constituted in the Co-operative Department and wherever necessary additional supervisory and technical staff should be provided at the Block, District and Divisional Level.

(7) Success of these societies depends on relating the remuneration of each worker to the work put in by him. Proper techniques to ensure this will have to be evolved. Special studies for this purpose will have to be conducted.

(8) These societies are facing speical difficulties in certain states. These need to be removed. For instance, in one State Agricultural Income-tax is charged on their income as on individual income, though the individual members, if they had not joined the society, would not have necessarily been so assessed. Legislation providing for special concessions to be given to these societies has not yet been made effective as the necessary rules have not been framed in some States. This should be done early, and other difficulties removed.

(20) The Sixth Plenary Session of the Conference of Development Commissioners held along with the Conference of State Ministers was particularly of greater importance and significance as the number of decisions calcualted to hasten the tempo of develop-

ment in the rural areas of this country were taken. Our Prime Minister Shri Jawaharlal Nehru is reported to have said at this Conference that the country had definitely and irrevocably accepted co-operative farming as the goal in the sphere of rural development. There was no other way than co-operative farming to improve the standard of agricultural production. That is why it had been positively and unambiguously accepted by the Planning Commission. Scientific techniques were developing so fast that unless India adopted co-operative farming, she would lag behind other nations. The Prime Minister further made it clear that the approach was not rigid and its acceptance was subject to democratic processes based on the willingness of the people. Co-operative farming, he added, was ideally suited for 'Gram-dan' villages. These presented a clean slate in view of the fact that the usual difficulties arising out of individual ownership of land did not obtain there. He further added: "The co-operative farming idea was implicit in the Community Development Programme and formed the basis of new urges in the rural areas. The application of modern and 'improved techniques entailed pooling of resources which led to some centralization and hampered individual initiative. The only escape from it was co-operation." We have already referred to the recommendations of the majority of the Patil Delegation to China. Though the authors of the report have laid great emphasis on voluntariness and its observance in the formation and management of co-operative farming societies, the whole trend of their account of the Chinese achievements does not, however, unfortunately disclose an objective approach to the problem. Two of the members of the Patil Delegation have appended a separate minute of dissent. As already referred to earlier, there has been a great divergence of opinion on the question whether the pooling of holdings should be for the whole programme of farming under unified direction or whether it should be restricted to securing the requisite aids to cultivation which may continue to remain in the hands of individual farming families. The Minority Report, while considering that the unit of cultivation should be an optimum one (not too high, nor too low) so as to permit of economical and profitable cultivation has recommended that the position of individual farmers should be strengthened by a large number of service co-operatives-for credit, bulk purchase and sale etc.—rather than resort to whole-

sale co-operative farming with all its attendant disadvantages. In this conclusion, the dissenting members are strengthened by the findings of the eminent economist Dr. Otto Schiller, who, in his monograph on Co-operative Farming published by the All India Co-operative Union, advocates individual farming on co-operative lines. In other words, his conclusion is that an individual farmer should own his piece of land but receive services of various kinds from co-operatives of which he is a member. The Minority Report does not consider that co-operative farming should be the subject of a Government programme, as the farmers should be free to undertake it willingly and on their own initiative, if they felt encouraged to do so by favourable circumstances. The majority, on the other hand, as we have already seen, opine that a programme of demonstration of co-operative farming should be worked out so as to have a sufficient number of societies in the next five years, and for that purpose they have made a number of recommendations regarding their organization, management and State assistance to be made available to them. The danger in the main recommendations of the Majority Report is feared or apprehended to lie in the possibility in India, as is found in China, of the use of compulsion at some stage not only for bringing co-operative farming societies into being where a majority of land-holders agree to pool their lands but even where they do not. The voluntary character of these societies may largely prove illusory ultimately and that they may be used as an instrument for complete collcetivisation and nationalisation of Indian agriculture against the will of the people. That these fears are not unfounded is already indicated by the fact that in certain authoritative documents a more complacent attitude is taken about the use of compulsion for purposes of co-operativization. Even if such compulsion is not directly used, it is possible that the objectives will be fulfilled by using a sufficient amount of administrative pressure. In reality, the fixation of targets for the development of co-operative farming in terms of the number of societies to be formed during a year or a period of years implies that such pressure is not ruled out. It may be noted that even the dissenting minority do not entirely rule out the possibility of co-operative farming under certain favourable conditions. It seems, therefore, that there is no legitimate objection to making experiments in co-operative farming in select areas where condi-

tions are favourable and with proper safeguards and technical guidance. It may be further noted that we are out to establish a Welfare State. In such a State, even democratic planning will imply State initiative and direction, State partnership and control, as planning cannot be formulated and achieved in a vacuum. In the democratic type of planning, where the co-operatives are excepted to play a vital role of implementing the programme and interpreting the objectives to the people and communicating their reaction to the State Planning authorities, it should be remembered that all State activity is so inspired, organized and executed so as to secure that maximum welfare of the group without at the same time suppressing the individual and crushing the free spirit of man.

(21) **Different Types of Large-Scale Farming.**—In order to step up agricultural production, it is recognized that some form of large-scale cultivation is necessary. One type of large-scale farming is co-operative farming which has already been considered at length, and there are three other types that are required to be considered, viz., collective farming, State farming and corporate farming.

(i) **Collective Farm.**—A notable example of collective farming is provided by the Russian Kolkhoz—which has already been fully dealt with in the second volume of this series. In Soviet Russia, the collective farms are of three types. The simplest is a mere cultivating or hard tending partnerhip, which is common among the nomadic tribes. At the other end, is the full commune in which members live together, each in a common kitchen and have no separate property of their own except a few things for personal use. Collective farms of this nature form only 1 per cent of the total number. In between these two types there is a third type in which the members surrender the land irrevocably. They work in common and the rights in live and deadstock are joint and the surplus produce is divided among the members. But the members reside in their own houses with their families having separate income of their own. These collectives are under a legal obligation to admit anyone possessing the requisite qualification. An important individualsitic element in them is a small separate piece of land or a garden adjoining the living house which is inde-

pendently worked by the family. This type of collective farm is an economic community of farming families, who pool their resources and undertake to work together under managing committee elected by themselves. This committee manages the farm, allocates work, distributes income in kind and in money and disposes of surplus. All the working members are placed in labour groups or brigades and work is allocated on a group basis. The brigade leaders check up the amount and quality of work done by their members. The remuneration of the workers is calculated in work-day units, i.e., the value of the average amount of work that can be performed by a collective farmer in one working day as fixed by a standard quota for each type of work. Differences in skill or special efficiency are paid for by grading up some jobs to a higher equivalent in work-day units than others. The programme of production for each farm is prescribed by the State which issues directives about the acreages under different crops and the number of animals to be kept etc. Each collective farm is required to sell to the State a fixed proportion of the average yield at a prescribed rate. As a result of collectivisation and mechanisation, it is claimed that there has been considerable increase in agriculatural production and the incomes of member-families as well in Soviet Russia.

(ii) **State Farming.**—Soviet Russia has also experimented with State farms. These farms are equipped with upto date machines and manage with the latest methods of agronomy and scientific animal husbandry and worked by paid labour. These farms are found in all the republics and even in those regions where population had been previously non-agricultural. Besides raising foodstuffs, like grain, milk, meat, butter, fruit etc. the State farms also produce raw materials like cotton, flax, wool, sugar-beet and essential oils for industries. The main point of distinction between a collective farm and a State farm is that the workers in a State farm are mere wage earners, while those on collective farms are peasant members who own collectively the means of production and have greater freedom to decide upon the management of the farms. The special method of paying wages according to work done by an individual member and according to the net output of the farm provides an incentive to the members for improving the farm.

(iii) **Corporate Farming.**—Corporate farming is based on capitalistic methods. It has the normal advantages of large-scale enterprise and leads to larger production and better marketing. The main ôbject of corporate farming being private profit, it is associated with all the defects implicit in absentee landlordism. The American plantations provide an example of corporate farming.

(A) Part III. Better Farming Societies in the Bombay State

The original object of starting such societies was propaganda and demonstration in order to popularise better methods of cultivation and agricultural practices by running a small demonstration farm and by persuading members to agree to adopt better cultural practices, approved by the General Meeting of the society. Failure on the part of any member to fall in line entailed a small penalty subject to such maximum as was fixed by the General Meeting. Better farming societies for the promotion of a specific type of activity such as cattle-breeding or consolidation of holdings could also be formed. The most usual activities of a better farming society were the popularisation of improved seed, manure and implements and provision of credit not exceeding a small amount: Government sometimes gave small subsidy not exceeding Rs. 100 and a non-recurring grant not exceeding Rs. 250% per society. It was at one time hoped that these societies through the influence of example could bring about better farming round about, but these hopes did not materealize in actual practice. As most of the activities undertaken by better farming societies can now be taken up by a multi-purpose society in the rural area, the Co-operative Department in the Bombay Sstate does not ordinarily register a better farming society unless it undertook special schemes of land development such as bunding, tractor-ploughing, gully-plugging, contour-bunding etc. in accordance with the procedure laid down in Chapter XI of the Bombay Co-operative Societies Act. The main types of better farming societies in the Bombay State comprise (1) a better farming society, (2) a crop protection society, (3) a fencing society, (4) a land improvement society and (5) an irrigation society. Under Co-operative Farming Societies are included joint farming societies, tenant farming societies and collective farming societies.

(B) Statutory Provisions relating to Co-operative Farming Societies in the Bombay State.

A farming society has been defined, under the provisions of the Bombay Co-operative Societies Act, as a society formed with the object of promoting development of land and better methods of cultivation by means of improved seed, manure, irrigation, bunding, tractor-ploughing, gully-plugging and soil conservation. Explanation given under clause 7 of Section 3 of the aforeseid Act classifies the farming societies into two categories, viz., (1) better farming Societies and (2) co-operative farming societies. A better farming society is one whose predominent object is the application of improved methods of cultivation and includes a crop protection society, while a co-operative farming society is one whose predominent is the application of co-operative methods by the holders of land and in respect of cultivation.

(C) Distinguishing Features of the two categories of Farming Societies.

The main characteristics which distinguish a better farming society from a co-operative farming society mainly lie in the method of cultivation adopted by members of the society. Firstly, if cultivation is carried on individually by members, whatever other services the society may be rendering, the society is styled as a better farming society. If, however, cultivation is undertaken jointly or collectively, it is a co-operative farming society. Another point of distinction between the two may also be noted. Under Section 64 (M) and 64 (Q) of the Bombay Co-operative Societies Act, 1925, the element of compulsion can be applied and a proportionate share of cost levied and recovered from a recalcitrant minority of holders of land, if they refuse to join a farming society registered in execution of a scheme undertaken by the society agreed to by other owners of lands included in the scheme. In the second place, the Board consisting of the Registrar of Co-operative Societies and the Director of Agriculture is to be satisfied about the practicability of the scheme. Thirdly, 66% of the owners in possession of not less than 75% in the aggregate of the land

proposed to be included in the scheme shall have given their consent in writing to the making of the scheme before the Registrar could proceed to register the society. Even after registration, an elaborate procedure has been prescribed under the Act before the scheme, as originally proposed, or amended by the Board, can be executed unless the State Government, in virtue of powers conferred on it under the Act, exempts any farming society or class of such societies from any of the provision of Chapter XI of the Bombay Co-operative Societies Act by a general or a special order to be published in the Bombay Government Gazette. Chapter XI of the Bombay Co-operative Societies Act details the procedure to be followed for getting a co-operative farming scheme sanctioned.

(D) Co-operative Crop Protection Societies

Crop Protection Societies can be broadly classified into two categories, viz. (1) those appointing watchmen for protection of the crop and (2) those that erect fences against damage by wild animals. Crop protection societies engaging watchmen for the protection of crops are mainly found in the two Khandesh Districts of the Bombay State and are generally started in villages having little or no grazing area round about the village, and having a fairly large proportion of landed people. The latter let loose their cattle on the standing crops or grass in the cultivated lands or cut the grass or crops for feeding their own stock or for sale in a neighbouring town or village. These people are engaged in their nefarious activities or go out in gangs during night time. Individual cultivators of land are helpless against the depredations of these people without some sort of associative action on their part and a co-operative society for protecting their crop becomes an inescapable remedy for them. A number of watchmen and mukadams are employed by the society for the purpose of keeping a watch and the number of such men employed varies with the circumstances of each case. The mukadams keep on moving from one block to another and if thieves come in greater numbers, neighbouring watchmen and villagers are alerted. Arrangements to keep a watch on the produce laying on the threshing yards are made until the produce is removed by the

cultivators to their own homes. Funds of a co-operative crop protection society are raised by means of entrance fees and the annual subscriptions based either on acreage or land revenue assessment. The rate of levy is such as to leave a surplus for emergencies after meeting current needs. In order to enable societies to work harmoniously, it is necessary to receive subscriptions in advance and it is also essential to elect on the Managing Committee such persons as have commanding influence in the village.

(E) **Fencing Societies in the Bombay State**

These societies are mostly concentrated in villages on the borders of forest in the western rice-growing tract of Dharwar District in the Mysore State. In this region small patches of rice land are exposed to damage by wild beasts and fencing on a large scale becomes the obvious remedy, as no single cultivator would be able to do so. If all the people concerned or affected join in the execution of the scheme of fencing, it is advisable to start a multi-purpose society which can take up other additional economic activities for better farming and which can command better financial resources than a mere fencing society. Distribution of costs of the scheme and the levy of annual subscription is a difficult task, as the lands affected are poor and are not in a position to bear a heavy burden. Funds required for this type of society are raised by means of an initial share capital not less than 1/8th of the total cost and by Government loan in the form of tagavi granted to individual cultivators. In order to maintain the scheme, a levy of a small payment as subscription from each member is made which would cover not only the instalment of the Government loan but also would cover cost of establishment.

(F) **Lift Irrigation Societies in the Bombay State** (based on Introduction to Leaflet KK issued by the Co-operative Department, Bombay)

(i) In dry areas where cultivation depends upon the vagaries of monsoons, irrigation has immense possibilities of stepping up agricultural production. It is the State only that can under-

take large-scale irrigation works involving huge capital outlay. Normally irrigation facilities are provided by canals, bandharas, and bunds, but they are not available in all parts of the State. It is, therefore, necessary to tap other sources of water and the possibilities of lift irrigation from rivers, streams or nalas, tanks and wells by setting up pumping plants can be found in a number of places. An individual cultivator is too poor and cannot afford the expenditure of lift irrigation machinery, as his lands are often scattered in many places nor has he the necessary skill or knowledge to keep it in continuously good repairs. It is in such circumstances that co-operative action is the obvious remedy. By combining co-operatively the cultivators can pool their resources to enable them to raise the necessary capital for the purchase of irrigation machinery and thus bring substantial area under irrigation. Through associative action in a co-operative venture they can reduce the cost of irrigation, prevent water wastage, raise more than one crop a year and thus enable the members to earn more net return from their occupation.

(ii) **Government Assistance.**—In order to encourage the formation of co-operatives for undertaking lift irrigation schemes and thereby intensify the grow-more-food campaign, the Government of Bombay have sanctioned a scheme under which substantial financial and other aids are granted to lift irrigation societies subject to the condition that each member should agree to raise foodcrops on a specific portion of his holding as may be prescribed from time to time under the scheme, and for such minimum period of time as may be laid down by the Registrar of Co-operative Societies. At present the prescribed minimum area is 50% of the total cultivated area and the minimum period of years is fixed at 10.

(iii) **Preliminary Investigation necessary before a scheme is sanctioned.**—In order to avoid the delay in approving the schemes which hold out promise of success, the State Co-operative Department has prescribed a form of application (vide Form R), giving particulars on important aspects of a scheme. This application has to be submitted to the Assistant Registrar of the district in which the scheme is to be launched. The organizers of the scheme can also obtain necessary guidance from the

cultivators to their own homes. Funds of a co-operative crop protection society are raised by means of entrance fees and the annual subscriptions based either on acreage or land revenue assessment. The rate of levy is such as to leave a surplus for emergencies after meeting current needs. In order to enable societies to work harmoniously, it is necessary to receive subscriptions in advance and it is also essential to elect on the Managing Committee such persons as have commanding influence in the village.

(E) Fencing Societies in the Bombay State

These societies are mostly concentrated in villages on the borders of forest in the western rice-growing tract of Dharwar District in the Mysore State. In this region small patches of rice land are exposed to damage by wild beasts and fencing on a large scale becomes the obvious remedy, as no single cultivator would be able to do so. If all the people concerned or affected join in the execution of the scheme of fencing, it is advisable to start a multi-purpose society which can take up other additional economic activities for better farming and which can command better financial resources than a mere fencing society. Distribution of costs of the scheme and the levy of annual subscription is a difficult task, as the lands affected are poor and are not in a position to bear a heavy burden. Funds required for this type of society are raised by means of an initial share capital not less than 1/8th of the total cost and by Government loan in the form of tagavi granted to individual cultivators. In order to maintain the scheme, a levy of a small payment as subscription from each member is made which would cover not only the instalment of the Government loan but also would cover cost of establishment.

(F) Lift Irrigation Societies in the Bombay State (based on Introduction to Leaflet KK issued by the Co-operative Department, Bombay)

(i) In dry areas where cultivation depends upon the vagaries of monsoons, irrigation has immense possibilities of stepping up agricultural production. It is the State only that can under-

take large-scale irrigation works involving huge capital outlay. Normally irrigation facilities are provided by canals, bandharas, and bunds, but they are not available in all parts of the State. It is, therefore, necessary to tap other sources of water and the possibilities of lift irrigation from rivers, streams or nalas, tanks and wells by setting up pumping plants can be found in a number of places. An individual cultivator is too poor and cannot afford the expenditure of lift irrigation machinery, as his lands are often scattered in many places nor has he the necessary skill or knowledge to keep it in continuously good repairs. It is in such circumstances that co-operative action is the obvious remedy. By combining co-operatively the cultivators can pool their resources to enable them to raise the necessary capital for the purchase of irrigation machinery and thus bring substantial area under irrigation. Through associative action in a co-operative venture they can reduce the cost of irrigation, prevent water wastage, raise more than one crop a year and thus enable the members to earn more net return from their occupation.

(ii) **Government Assistance.**—In order to encourage the formation of co-operatives for undertaking lift irrigation schemes and thereby intensify the grow-more-food campaign, the Government of Bombay have sanctioned a scheme under which substantial financial and other aids are granted to lift irrigation societies subject to the condition that each member should agree to raise foodcrops on a specific portion of his holding as may be prescribed from time to time under the scheme, and for such minimum period of time as may be laid down by the Registrar of Co-operative Societies. At present the prescribed minimum area is 50% of the total cultivated area and the minimum period of years is fixed at 10.

(iii) **Preliminary Investigation necessary before a scheme is sanctioned.**—In order to avoid the delay in approving the schemes which hold out promise of success, the State Co-operative Department has prescribed a form of application (vide Form R), giving particulars on important aspects of a scheme. This application has to be submitted to the Assistant Registrar of the district in which the scheme is to be launched. The organizers of the scheme can also obtain necessary guidance from the

District Co-operative Officer. The following points would be the subject-matter of investigation :—

(a) Location of the Site.

(b) Approximate area that would come under irrigation.

(c) Source from which water is to be pumped for irrigation.

(d) Approximate lift involved.

(e) Annual high flood level and the extraordinary high flood level.

(f) District Co-operative Officer's opinion whether the area under command is generally fit for irrigation.

(g) The length of the Rising Main.

(h) Proposed site for the location of engine house, jack wells etc.

(iv) **How is the practicability of the scheme decided and and by whom**—On receipt of an application to undertake a scheme of lift irrigation from the promoters, the Assistant Registrar of the District in which the scheme is to operate forwards it to the Executive Engineer of the Division, if he considers that the application is fit for further investigation. The latter officer after doing the needful expected of him, forwards the application with his own opinion about the feasibility of the scheme showing the results of his preliminary investigation and the estimates of costs etc. to the Assistant Agricultural Engineer under intimation to the Assistant Registrar of Co-operative Societies. The Executive Engineer, while issuing the feasibility certificate, has to indicate whether there are any restrictions in regard to the tapping of the water source and the authority that could be approached in the matter. The Assistant Agricultural Engineer, after examining the scheme carefully, sends his certificate of feasibility if, in his opinion, the scheme is such as to deserve to be promoted. In cases where he feels doubtful, he has to refer the matter to the Agricultural Engineer to Government before returning the whole correspondence to the Assistant Registrar concerned with his feasibility certificate. But he has to keep the Assistant Registrar apprised, if the matter is referred to the Agricultural Engineer to Government.

(v) **Preliminary steps necessary before a society is registered.**—When the feasibility certificates are obtained, the next step the Assistant Registrar, Co-operative Societies, has to take is to call upon the promoters to collect the requisite initial contributions towards the share capital up to 25% of the total estimated cost of the scheme. If the outlay involved in the scheme is more than Rs. 1 lakh, at least 20% of the cost is insisted before the society is registered. If, however, he feels assured that the requisite amount of share capital would be forthcoming, he would request the Excutive Engineer concerned to undertake the preparation of the detailed project for the scheme. For this purpose the promoters are called upon to pay up 2½% of the rough estimated cost as centage charges to be paid to the Executive Engineer for preparing detailed plans and estimates of costs. In the case of schemes involving 400 acres or more of land to be irrigated, where the District Agricultural Officer considers that detailed soil classification is necessary before the scheme is sanctioned, the promoters are asked to apply to the soil Physicist to Government with a remittance of Re. 1 per acre of the land to be irrigated in order to obtain his opinion. The approximate centage charges for the civil part of the work, when received from the promoters, are deposited by the Assistant Registrar with the District Central Co-operative Bank of the district. When the Executive Engineer completes his part of the work, he passes on the plans and estimates to the Assistant Agricultural Engineer concerned. The latter then prepares the detailed plans and estimates of costs of the mechanical part of the scheme and incorporates the same into the project received from the Executive Engineer and forwards the whole scheme to the Agricultural Engineer to Government. The latter will go through the scheme and make a detailed scrutiny and sends his report thereon including the final feasibility certificate to the Registrar of Co-operative Societies under intimation to the Assistant Registrar concerned, who is duly kept informed when the papers concerning the scheme travel from one office to another. If, however, the irrigation scheme is a well, the Assistant Registrar of Co-operative Societies sends the requisition to the Assistant Agricultural Engineer direct. The latter then prepares the entire plan and estimates of the project.

(vi) **Application for the Registration of a society together with necessary documents.**—An application for the registration of a lift irrigation society is required to be accompanied by various documents, and particulars of information as mentioned below :—

(a) Bye-laws contained in Leaflet KK duly signed by at least ten adult promoters who have also signed the application for the registration of the society.

(b) A list of contributors to the share capital and the amount promised to be contributed or actually contributed by each.

(c) A receipt of the Central Co-operative Bank showing the amount of share capital collected and deposited with it.

(d) A detailed description of the scheme.

(e) A plan showing the area affected by the proposed scheme and the surrounding lands as shown in the map or maps of the village or villages affected.

(f) An extract from the Record of Rights showing occupants and tenants of lands, the area and assessment of lands included in the scheme.

(g) A duly signed statement showing the owners of lands that consent to the scheme.

(h) Estimates of the cost of the scheme.

(i) A statement showing how the cost is proposed to be apportioned among the members and how the requisite funds are proposed to be raised for the purpose.

(vii) **Information in regard to the Project.**—(A) According to introduction to Leaflet KK issued by the Co-operative Department, Bombay, the Project should give particulars under the heads mentioned below :—

(i) Brief description of the scheme with specific mention of the source of water supply.

(ii) An index map to a scale of one inch--one mile showing the Lift Irrigation site, village, roads and railways, if any.

(iii) Village map sketch (scale $660'=1''$ or $330'=1''$) showing the area proposed to be irrigated, the source from where the water will be pumped, the alignment of the Rising Main, channels and position of engine-shed, etc. This map should also show contour with one foot vertical interval.

(iv) A statement showing the crops proposed to be grown in different seasons and the discharges required on 16 or 12 hour working basis of pumps as the case may be.

(v) A longitudinal section along the alignment of the proposed Rising Main wherever required, showing also the section across the river/Nala with the lowest summer/winter water level. This longitudinal section must specifically show the length of Rising Main and the total static lift involved.

(vi) Calculations showing the engine horse power required with 60 per cent. efficiency.

(vii) A statement in the form showing the financial aspect of the scheme giving estimates of annual net surplus income in rupees.

(viii) Particulars and specifications of engine, accessories and equipment required.

(ix) Total area that could be brought under irrigation.

(x) Crops that could be grown.

(xi) Total area that could be put under food crops.

(xii) Probable time required for the completion of the scheme.

(xiii) Other remarks, if any.

(B) Detailed estimates of the cost of the scheme are given under the following heads :—

(a) Mechanical and Civil Engineering cost for lifting water.
- (1) Engines including cost of installation, etc.
- (2) Pumps do. do.
- (3) Intake chamber and intake pipe-line.
- (4) Sump well or Jack wells or any other device proposed for direct installation of pumps on suitable foundations.

(5) Engine sheds.
(6) Rising main.
(7) Discharge or Delivery Tank.

(b) Distribution System:—
(1) Irrigation Channels.
(2) Syphons.
(3) Distribution or regulators.
(4) Cross drainage works.
(5) Pipe-lines, if any.
(6) Road culverts.
(7) Outlets.

(c) Estimates of annual recurring cost under the following heads :—
(1) Maintenance and repairs.
(2) Establishment.
(3) Depreciation and replacements.
(4) Amount of loan instalment.
(5) Amount of interest on loan.
(6) Other charges.

The estimates of cost should be based on the current rates prevailing in the locality. The details of working expenses in running the scheme should be so worked out as to include the cost of fuel oil, or electric energy, supply, of spare parts and repairs, the wages of the secretary-cum-driver, and the cost of keeping the channels in good repair. In ascertaining what sort of plant and machinery would be required as also the horse-power the size of pumps and the diameter of the Rising Main, the area coming under irrigation, the cropping programme, the hours of working the lift, the length of the lift involved will also have to be taken into consideration.

(viii) **Government Assistance.**—When the society is registered and set going after the election of office-bearers, it applies for financial assistance from Government in Form 'A' through the Assistant Registrar of the district, and the Assistant Registrar will forward the application to the Registrar with his own remarks after obtaining the opinion of the District Co-operative Officer thereon. When the loan is sanctioned to the society, it shall

obtain mortgage deeds from its members in the form prescribed which it shall assign in favour of Government. It shall also execute a mortgage deed in favour of Government, mortgaging its assets. The society has to agree to carry out the scheme of irrigation and raise such foodcrops in such area as may be prescribed by the Registrar from time to time and for such peroid of years as he lays down. On receipt of money from Government the members of the society undertake the construction work for the scheme. The work of execution is required to be carried out under the supervision of a qualified overseer appointed and paid by the society. Technical assistance is obtainable from the Executive Engineer and the Assistant Agricultural Engineer, whenever needed. The amount of loan sanctioned together with subsidy is disbursed to the society in three instalments. The first instalment which is equivalent to 60 per cent of the total amount of loan and subsidy is paid at the outset, to enable the society to undertake the execution of the scheme on its executing the necessary agreement and the mortgage deed. If Lift irrigation societies in receipt of Government assistance are required to purchase diesel engines and pumping sets of 10 H. P. or below, they are advised to purchase only indigenous make, provided their prices are reasonable and the manufacturers guarantee servicing whenever needed and agree to provide spare parts. Lift irrigation societies are usually advised to go in for Diesel engines and pumping sets of indigenous make of 11 to 35 H. P. under conditions mentioned above. On request by the society through the Assistant Registrar of the district, the Executive Engineer and the Agricultural Engineer to Government will arrange to get the civil and mechanical portion of the work already done duly inspected and issue a certificate to the Assistant Registrar showing the progress made in the prescribed form. The Assistant Registrar will then examine the certificates to see whether the initial instalment of loan and subsidy have been properly utilised and whether the work in progress have proceeded in accordance with the approved plan. If he is satisfied, he would recommend to the Registrar for the grant of second instalment, equivalent to 20% of the sanctioned loan and subsidy. On a further requisition through the Assistant Registrar, the Executive Engineer and the Agricultural Engineer will again arrange to

get both the mechanical and civil portion of the work inspected and furnish the Assistant Registrar completion certificates in the prescribed form stating whether the society has carried out the work according to approved plan and whether there is any objection to make the final disbursement of loan and subsidy to the society. If the Executive Engineer and the Agricultural Engineer do not furnish certificates as required on the ground that the work has not proceeded according to plan, the whole amount of loan and subsidy already disbursed is liable to be called in. Similarly, in the event of the scheme being terminated before the period of ten years, the whole amount of loan plus subsidy will be recovered by the Registrar from the sale of irrigation machinry and other assets of the society. The subsidy given to a lift irrigation society for purpose of carrying out the lift irrigation work in the form of fixed assets or fixtures is required to be credited to the statutory reserve fund and the subsidy which is given to meet establishment charges can only be allowed to be taken to the credit of profit and loss account. The staff under the farming units or Additional District Co-operative Officers are enjoined to make periodical inspection of the working of lift irrigation societies.

(ix) **Regulations relating to purchase of water in bulk and its distribution to the Members of the Society :—**

(1) A water rate may be assessed by the Managing Committee on the area held by each member under the command of irrigation in each section within the irrigation boundary irrespective of the area actually irrigated or of the area of matured crops.

(2) Water rates shall be paid to the society on the dates fixed by the Managing Committee from time to time and shall be a first charge upon the crops or other agricultural produce raised by irrigation within the irrigation boundary. If any sum due to the society either as water rate or any other account is not paid on the due date, the Managing Committee may levy interest at the rate of 18¾% and also deprive the defaulter of the privilege of further irrigation until such arrears are paid in full.

(3) The Managing Committee shall have the option of taking a security bond in Form I executed by two members of

the society approved by the Committee for the due payment of the water rate.

(4) The Committee is authorised to excavate water course through the land of any member to whom water is sold from the distributory, wherever this may be considered desirable and no member shall claim any compensation for loss or damage.

(5) A person whose membership is terminated shall not destroy or remove any water course running through his land during the period of contract and shall not be entitled to claim any compensation for the same from the society.

(6) The Committee will be responsible for seeing that the Canal Rules are strictly adhered to and it will manage the internal distribution of water in consultation with the Irrigation authorities when necessary.

In case of wastage and unauthorised use of water, the irrigators concerned will be individually liable for penalty according to the existing rules, and such penalty may be recovered by the Managing Committee from any shares, deposits or other funds belonging to the member in the society.

(7) The provisions of the Irrigation Act and the Rules for the Administration of Canals issued by Government from time to time shall apply to the members of the society with such modifications as may be be mutually agreed upon between the society and the Executive Engineer.

(8) Each member shall comply with and satisfy all regulations, bye-laws, rules and conditions and execute all such works as may be required to be done by every public, local or other authority.

(F) Land Improvement Societies

The formation of land improvement societies was encouraged at a time when the schemes for the starting of co-operative farming or irrigation societies had not been sanctioned by Government. Among these societies are included societies for the drainage of water-logged and salt-affected lands in perennial canal

areas, societies for the reclamation of Khar lands and societies for the improvement of Government waste lands granted to backward class people. Government assistance to these societies took the form of long-term tagavi loans and provision of technical guidance from the State Departments concerned. In a few cases subsidies were also granted to meet the cost of rural assistants who were deputed to work as Secretaries of these societies. With the establishment of co-operative farming and better farming societies, land improvement societies are required to adopt bye-laws of the latter type of societies with the necessary modifications where needed.

(G) Co-operation and Agricultural Production

Cattle Breeding Societies in Bombay State

1. The Need for Cattle Breeding Societies:— Cattle are an important form of agricultural wealth in any agricultural country. India has a larger cattle population than any other country in the world, but the breed of cattle is extraordinarily poor and the prevalent type of animal is not as useful as it might be for milk or for draught purposes. The average per capita yield of a cow in India is about 480 lbs. which is quite low. The Royal Commission on Agriculture in India observed: " Having regard to the very poor quality of the grazing available and to the fact that it fails to afford adequate maintenance for cattle all the seasons of the year when fodder grown on cultivated land is scarce, we are of the opinion that the number of the cattle is a heavy stock for land to carry. Thus the cause for poor quality of cattle are insufficient and unsuitable fodder and bad breeding. The village cattle are all herded together so that the cows in heat are often covered by weak or immature bulls and the resulting progeny is stunted and unhealthy. Improvement in quality can be brought about by the adoption of a judicious policy of breeding. Separate cattle breeding societies are formed for the proper breeding not only of cows but also of buffaloes. The benefits which cattle breeding societies aim at securing are, firstly, an improved system of grazing, and secondly, the provision of a suitable type of bull.

2. When there are sufficient number of agriculturists owning at least 60 cows, who are anxious to secure the services of an improved type of bull, they may apply for the registration of a cattle breeding society. The promoters then seek the advice of the registering authority — the Assistant Registrar of the district—as to which type of bull to choose, indicating whether an animal is required for heavy draught work or for general farm work or for improving the output of milk. The application should also indicate the climate, the nature of pasturage and the size of the cows to be covered. The registering authority would then consult the District Agricultural Officer or the Livestock Expert to Government in making the final choice of the bull required. There are two Government schemes in operation in the State for obtaining premium bulls and cows. Under the Premium Bull Scheme, the State Government pays half the cost of the bull up to a maximum of Rs. 350 subject to its proper use and upkeep. In the alternative, if the full value of the premium bull is paid by the promoters, a monthly subsidy of Rs.12 is given for the maintenance of the bull for three years in the first instance and for a further period of three years during which the bull is found fit for service. The bull can be sold at the end of the period and a fresh bull obtained to avoid its covering its own progeny. Under another scheme, loans up to Rs. 350 per bull and Rs. 150 per cow are granted for their purchase. The loans are granted at 2% and are repayable in three years in equal half-yearly instalments. The condition before the loan is granted is that the animal so purchased should not be sold or disposed of without the approval of the Livestock Expert until the loan is fully repaid. After having found the bull, the next important step for the promoters is to select a suitable grazing area, as it is important that the herd of the society should not be allowed to mix up with other village cattle. The grazing area should also be properly fenced to keep out intruders.

3. **The Herd.** No cows should be admitted to the herd unless they are good and healthy animals passed by the Committee. A herdsman should be maintained to look after the cows all day, to take them out in the morning and bring them home in the evening. A shed should be provided for the bull, which must

be carefully tended and fed on some kind of concentrated food weighing not less than 4 lbs. a day. It should be employed for servicing for a period of five years. A herd book should be maintained by the society showing the name and description of the cow, the name of the owner, date of admission to herd and age at admission. Further particulars should show the following :—

(1) Date of covering.
(2) Name of covering bull.
(3) Date of calving.
(4) Sex and description of calf and remarks.

In the remarks column details of milking qualities of the mother should be mentioned in societies which aim at improving milk supplying.

4. **Application of the Bombay Livestock Improvements Act, 1933.** If and when the number of improved type of bulls is adequate for servicing the cows in a village, the Livestock Expert may be approached through the Assistant Registrar to make the Livestock Improvements Act applicable, so that compulsory castration of all scrub bulls may be provided before they complete the age of two years.

5. **The Rearing of Calves.** Calves should be well-fed and cared for to enable them to grow into really fine animals. For the first five weeks after the birth of a calf, it should receive not less than 5 lbs. a day of its mother's milk. Later, this milk diet should be supplemented by other fodder and if the calf is hand-fed, skimmed milk to which some suitable meal—bajri, jowar or maize has been added may be given. If the herd includes a pedigree cow or cows, a young bull selected out of those born of it or them should be brought up in order to take the place of the bull of the herd. All other unsuitable young stock should be castrated when they are a year old.

6. **Protection of Cattle against Cattle Epidemics.**—In order to prevent losses from attack of epidemics, societies should take steps to get their herd vaccinated by the Veterinary Surgeon attached to the nearest Veterinary Dispensary. The Society also should try to obtain first-aid verterinary medicine chest

for treatment of ordinary ailments of cattle and arrange to remove the cattle to the nearest dispensary in case of serious diseases.

7. Finance. Before forming a society the promoters have to calculate whether they can raise the initial working capital and what subscription they must levy in order to meet the current annual expenses. The initial expenses will consist of (1) cost of bull, (2) shed for bull, and (3) finance required for grazing area. These items of expenditure should be met out of entrance donations received from members. The recurring expenses consisting of (1) wages of herdmen, (2) feed of bull, (3) rent for grazing land, (4) salaries and contingencies, (5) a sum sufficient to carry to statutory reserve fund, should be met out of annual subscriptions. The society will have a small income on account of sale of dung or covering fees from non-members.

8. Registration of the Society. The amount collected by way of initial share capital should be deposited by the promoters in the Central Financing Agency of the district and the registration proposal should be accompanied by the deposit receipt and forwarded together with information relevant to the society, to the Assistant Registrar. Four copies of bye-laws also duly signed by promoters should accompany the application for registration.

9. Other Activities of a Cattle Breeding Society. With the development of resources of a society, improvement of grass lands, installation of pumping sets to grow more foodcrops, construction of silo pits for preservation of fodder, construction of cattle sheds for housing the herd are among the activities it can take up. Government may be approached for assistance in the form of lease or grant of pasture lands and of loans and of subsidies for purchase of cows or maintenance of the bull.

10. Progress of Cattle Breeding Societies in the Bombay State. There were at the end of 1953-54, 33 cattle breeding societies Bombay State. They had 1418 members and owned 27 breeding bulls and 13 cows. The members of these societies owned 2529 cows. Out of 33 societies in the State, 19 were working in the Dharwar District alone. These 19 societies

had 11 stud bulls and the number of cows owned by the members was 1243 at the end of 1954. Among the activities that are undertaken by cattle breeding societies, maintenance of pedigree bulls, distribution of cattle feed, maintenance and leasing out of grazing lands were the main ones.

Part IV. (1) Milk Supply and Dairying

Milk is both a nutritive and protective food. The Milk Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries estimated some time ago that the total production of milk in India was 21 million tons of which 27 per cent.was used as whole milk. Co-operative organization is a suitable form of organization for stepping up production of milk and for organizing the producers of milk in groups, so that they might adopt hygienic methods of milk production. There is ample scope also for co-operative organization in the distribution of milk. A co-operative dairy may take either of the two forms, i. e., a producers' or a consumers' organization. A society combining both these elements is apt to prove a failure, as the interests of consumers and producers are mutually conflicting. It may be noted that the producers' co-operative has better chances of success, as most of the milk is produced in rural areas, while the remunerative market for milk and milk products is largely urban. Co-operative Milk Supply Societies and Unions have, therefore, been organized for securing adequate supplies of fresh milk to urban consumers. The Unions situated in towns or cities arrange to get milk supplied through primary feeder societies situated in the villages within a radius of 20 to 25 miles of the city or the town. They arrange to collect the milk from the villages and transport it to the urban centres where it is pasturised, undertake its quality analysis and distribute it to the final consumers in the city or town.

(2) Primary Milk Supply Societies in Villages. The Co-operative Planning Committee recommended the formation of societies of milk producers within a radius of about 30 miles from a town or a city having a population of 30,000 or more. The formation of societies in areas lying beyond a distance of 10 miles of a town or city is specifically recommended, as the producers there will find the urban market inaccessible to them. The special

transport facilities which a milk supply union situated in a town or city will be able to provide to those distant areas would prove a greater incentive to the producers to join a co-operative society in order to reach the urban market than those nearer the city or town who have easier access to it. In a village where already a co-operative society exists and if a majority of members of such primary credit society is interested in production of milk and its sale, the society itself may serve as a milk collecting agency: In villages not served by co-operative organizations, an independent milk supply society should be formed. Before a society is formed, it is necessary to lay down a minimum daily quantity which such society must produce and supply. This minimum should ultimately be 300 lbs. per day. The functions of the primary milk supply society will be to intimate to the Union the approximate quantity of milk its members can supply at the beginning of each month and disburse payments to its members and distribute the subsidy, if any, given by the Union. The primary society will have to grant short-term or medium-term loans to its members for the purchase of fodder or feeding stuffs or for the purchase of cows or buffalows and to undertake the further responsibility of seeing that milk is produced under hygienic conditions. Members' cattle should be milched in the presence of the Secretary of the Society and at a conveniently situated common shed having an impervious floor and a covered roof. The requisite funds required for putting up a common shed should be provided by the State, and the funds required for issue of loans to members can either be drawn from the central financing agency near at hand or the milk supply union to which the primary society is affiliated. Each primary society will ordinarily incur a monthly expenditure of about Rs. 50.

(3) **Milk Supply Unions.** A milk supply union is entirelya producers' organization formed by a Federation of the Village primary milk supply societies. For its economical working a Union will have about 30 societies affiliated to it, though the exact number of societies required will depend upon their situation, their distance from the union, availability of transport facilities and the quantity of milk they are in a position to produce. The main objects of a milk union would be to collect milk in villages and

arrange to transport it in the first instance to a collecting centre and convey it therefrom to a town and market it to the city-dwellers. The arrangements which a milk supply union makes must include, according to the opinion of the Co-operative Planning Committee :

(1) A guarantee to the producers of a fair price for standard quality of milk;

(2) appointment of a supervisor for a group of villages within itinerary of a single milk collecting van who is required to weigh and test the quality of the milk and generally supervise the work of the village primaries; and

(3) provision of speedy transport facilities and hygienic milk-containers to carry the produce from the villages to the office of the Union in the town or city either directly or through the primary collecting centres set up. The milk collected by the Union may be distributed to its own staff who will go round the town or city or through co-operative consumers' organizations that are ready and willing to undertake distribution after pasteurizing it. The Union will require adequate capital for purchasing transport vehicles and milk containers and the amount required would have to be provided by the State. Even the working expenses in the initial stages are likely to be heavy and the Co-operative Planning Committee have recommended that 50 per cent. of such cost should be borne by the State Government. According to the estimates made by the Co-operative Planning Committee, the average expenditure of a milk supply union, excluding the cost of pasteurisation plant, will be as follows :—

(1) Capital expenditure on buildings, transport vehicles, and milk containers. .... Rs. 50,000

(2) **Establishment :**

(i) Secretary:	@ Rs. 150 p. m.			
		total	Rs.	1,800
(ii) 1 Accountant	@ Rs. 100 p. m.	...	"	1,200
(iii) 6 Supervisors	@ Rs. 50 p. m.	...	"	3,600
(iv) 6 Transport Drivers	@ Rs. 30 p.m.	...	"	2,160

A milk supply union will also have to raise long-term capital if it undertakes the processing of milk before distribution. In that event it would require a proper dairy and a processing plant.

(4) **Recommendations of the Co-operative Planning Committee:** According to the statistics given by the Co-operative Planning Committee, there were in the Indian Union, at the end of 1947, 43 towns with a population of 1 lakh and over, 76 with a population of 50,000 to 100,000 and about 95 with a population of 30,000 to 50,000. In order to organise an effective distribution of milk supply to city-dwellers, the Co-operative Planning Committee estimated that 300 co-operative milk unions would have to be started within a period of five years. Thus the total capital costs were roughly estimated by the Committee at Rs. 1.5 crores and the recurring cost at about 26.28 lakhs. It further recommended that the State should bear the whole of the capital cost and 50 per cent. of the recurring cost. In making this large expenditure and thereby helping to keep milk prices low, the State will, to some extent, discharge its responsibility for the nutritional condition of all its people.

(5) **Establishment of Milk Marketing Boards.** The Co-operative Planning Committee has recommended the establishment of statutory milk marketing boards for larger cities, especially those with a population of one lakh and over, in order that the interests of the consuming public may be properly served. In this context it has made a reference to the working of the Milk Marketing Board in England for the purpose of regulating milk trade. According to it, the country was divided into 11 regions and required all producers in them having more than 4 cows to register themselves. "Producers in each region elected one member to the Board and the registered producers as a whole elected five more members. The Board, after consultation with the purchasers of milk, was to fix the wholesale and retail prices for liquid milk and the wholesale price for milk going into manufacture. Producers contracted as before to sell milk to their clients, the only difference now being that the Board also formed a party to the contract and all payments were to be made to it. It further bound itself to accept any milk which the producer

could not sell, and dispose of it by sale or manufacture for which it usually charged commission from him. Producers in each region were paid for their milk by the Board according to a regional pool price which was calculated monthly as follows: Each region was credited with the receipts from all milk sales in it ; on the total sales a levy was made for the purpose of meeting the expenses of the Board and a further levy was made only on the liquid milk sales for the purpose of granting inter-regional compensation,the balance was then allocated among the producers according to the quantity supplied by each. In the expenses of the Board were included the payment of a premium for milk which satisfied certain standards laid down by it and any losses incurred by it on account of handling milk. Transport charges and any deductions for inferior quality were charged to individual producers. Under this scheme the class of producer-retailers received special treatment. These persons were required to register themselves and to adhere to the prices and regulations laid down by the Board but were allowed to receive payments direct from the purchasers. They had to pay to the Board the inter-regional compensation levy, the general levy (when required) and a sum equal to three-fourths of the difference between the regional pool price and the local retail liquid milk price. In India, an attempt should be made to organize co-operative societies for the distribution of milk, wherever possible, as recommended in Chapter IX. The Boards which we contemplate for the larger cities will differ greatly from the English Board. They would be public corporations composed of the representatives of Government, the Municipalities, Co-operative Milk Supply Unions and producers of milk. They would be authorized to purchase raw milk from Milk Unions. They would then pasteurize and distribute it to consumers and process any surplus into milk products. They would guarantee to the Unions a fair price for milk of tested quality and an offtake of all the produce collected. While these Boards would not have a monopoly of the liquid milk market, they should be in a position to supply, say, 30 per ent of the requirements of the cities in which they are established, in order to be able to make an effective contribution to the improvement of the milk situation. In those towns where co-operative societies for the supply of milk already exist and are functioning

well, or can be organized, no Milk Marketing Boards, as recommended above, need be set up."

(6) **Salvaging of Dry Animals.** The scheme of salvaging dry animals is a useful adjunct to milk co-operatives and can be organized on co-operative lines. There has been a tremendous waste of cattle wealth in India owing to lack of effort to provide facilities for salvaging dry animals. In big cities and towns dry animals are a veritable burden to their owners. Very good animals are often sold to butchers when they go dry. The application of the co-operative method has met with success in solving the problem of salvaging dry animals in Madras under a scheme sanctioned by the Government of Madras. A Co-operative Salvage Society has been established at Madras and is assisted by Co-operative Senior Inspector. It receives dry cows from members and delivers them to a Veterinary Assistant Surgeon, specially appointed for the purpose and stationed at Madras. He arranges to send the animals when a sufficient number of them is forthcoming to the Kambakkam Reserve Forest Area reserved for salvage work. There a stockman compounder takes charge of the animals and tends them till they calve again. They are sent back to the Veterinary Officer at Madras and returned to the respective member-owners by the Society. A salvage fee of Rs. 5 per month per cow is levied. The cost of transporting the animals to the forest area is met out of the funds obtained from salvage fees, but the cost of bringing them back is borne by the owners. The risk of loss of animals through disease, theft etc., is borne by the owners. The scheme provides for the maintenance of three bulls by the stockman compounder for servicing the cows in his charge. The Society collects the animals and salvage fee from members and informs them about the condition of their animals on the farm from time to time and about any ailemts or casualties reported by the Veterinary Officer.

The Society also issues permits to the owners to bring back their animals whenever they desire to do so. The State Government has sanctioned to the Society a non-recurring expenditure of Rs. 5,150 and a recurring expenditure of Rs. 10,044 on the scheme. Salvaging is only a temporary remedy for the solution of the

problem and in large cities like Bombay where cows and buffaloes are stabled together, the conditions are appalling, unhygienic and insanitary. Dairy farms on the lines of the military dairy farms where animals can be maintained in colonies are required to be started on outskirts of towns and cities. These farms should be started on a co-operative basis and owners of milch cattle, particularly Gawalis and others, owning cattle in large cities should be persuaded to form co-operative societies. They will settle in these colonies with their animals. The societies should provide stables, milking yards, dairies, stud-bulls, veterinary aid and storage accommodation for feed etc. Each member will look after his own animals and deliver milk to the society's dairy. Such societies, in the opinion of the Planning Committee, should be offered by State Governments or Local Bodies, attractive sites for keeping the cattle of the members at convenient distances from the cities. It should be possible to stable about 300 to 400 animals at a time. These cattle-owners' societies should adopt improved methods of production of milk and arragne for the proper care of dry animals and young stock and to provide facilities for grazing and silage-making. These societies will become regular sources of supply of milk to milk unions or consumers' milk distributing societies in the urban areas.

Part IV. Statewise Review of the Working of Milk Supply Societies and Unions in the Indian Union

1. (a) **All-India Statistics.** There were at the close of 1953-54 1473 milk supply societies and 65 unions with a total membership of 1,22,649 individuals and 8,513 societies in the whole of India. The value of milk sold by them was Rs. 208.72 lakhs and Rs. 209.39 lakhs respectively.

2. **Madras.** There were at the end of 1954, 560 milk supply societies having a membership of 65,101 and 20 milk unions in the State of Madras. The value of milk sold by these societies and unions stood at Rs. 69.34 lakhs and Rs. 71.61 lakhs. The most important society in the State is the Madras Milk Supply Union. Its area of operation extends over the Madras City and the Chingleput District. It had 23 individual members and 152

milk supply societies affiliated to it during 1953-54. It supplied milk to all the State Hospitals and other public bodies in the city. The Union runs the key-farm centres at Kalacheri and Valerpuram where the agriculturists get their cows served by superior stud bulls under a scheme sponsored by the Government of India. The veterinary staff attached to these centres attend to the cattle diseases and artificial insemination. The Union also maintains six veterinary first-aid posts for the benefit of milch cattle of members of its affiliated societies. The State Government has sanctioned a scheme for increasing the milk supply to Madras City by 5000 lbs. per day by expanding the activities of the Union. The following statement shows how the expenditure under the scheme was shared among the Sstate Government, the Corporation of Madras and the Union :—

		Non-recurring	Recurring
State Government.	...	Rs. 64,000	Rs. 9,250
Madras Corporation.	...	Rs. 10,000	Rs. 1,000
Milk Union.	...	Rs. 37,000	Rs. 10,250

A laboratory with the requisite technical staff has been established at Madras for controlling the quality of milk.

(b) **Government Assistance.** Members of milk supply societies are granted loans by the State Government for the purchase of milch animals and on an average a sum of Rs.8 lakhs per year was advanced for this purpose. Similarly, milk supply unions were granted loans in order to enable them to purchase lorries, pasteurization plants and dairy machinery. The entire cost of staff such as dairy assistants, Senior Inspectors and Junior Inspectors sanctioned under the urban milk supply scheme has been borne by the State Government.

3. Andhra. There were 323 milk supply societies in Andhra, having a membership of 14,227 at the end of the year 1953-54. The value of milk sold by them amounted to Rs. 5.95 lakhs during the year. In addition to these, there were 20 milk supply unions which sold milk worth Rs. 8.01 lakhs. The milk supply societies and unions in the State experienced great difficulties in their work. There was unhealthy competition from milk vendors

who sold adulterated milk at cheaper rates. Large quantities of milk remained unsold on hand during the flush season as production had not been properly regulated so as to equate demand. The new societies could not make prompt payment for milk supply owing to lack of adequate capital resources. The milkmen proved disloyal to these societies and stopped supplying milk whenever they had opportunities to sell their milk at more favourable prices to outsiders.

State Assistance. Under the scheme for the development of milk supply in urban areas in the State, the state Government made available to these societies free services of departmental inspectors to work as secretaries in certain societies and unions. Loans were also granted at 3% to the members of the societies and unions.

4. Bombay. There were 118 milk supply societies in the State with a membership of 21,710 at the end of 1953-54. They sold milk worth Rs. 110.75 lakhs and granted loans to their members to the extent of Rs. 460 lakhs. There were also 7 milk supply unions. The value of milk sold by the unions was Rs.73.59 lakhs in 1953-54.

(a) **The Bombay Milk Plan.** The Plan is divided into two parts, viz., the Bombay area comprising the Bombay City and the Suburbs and the Anand area of the Kaira District in so far as production and supply of milk by the Dairy Co-operatives is concerned. The Plan is adminisitered by the Milk Commissioner, Bombay.

(i) **Bombay Area.** The Milk Commissioner placed restrictions on the quantities of milk supplied by the co-operative dairy societies in the Bombay area and decided to stop supplies altogether after 1st September 1953 on the ground that sufficient quantities from the Anand area and Aarey Colony were obtained for the Milk Plan. This had the effect of curtailing the activities of the dairy societies in the Bombay area. The value of milk supplied gradually dwindled from Rs. 27.77 lakhs in 1951-52 to Rs. 23.60 lakhs in 1953-54. The losses incurred by these societies in the earlier years owing to spoilage or low fat-content rose to Rs. 0.28 lakh during 1953-54. In order to put these societies

on their legs again attempts were made to co-ordinate their activities with those of housing and consumers' societies.

(ii) **Anand Area.** In the Anand area the number of primary milk supply societies was 63 with a membership and a paid-up share capital of Rs. 14,741 and Rs.1.53 lakhs. The societies were affiliated to the Kaira District Co-operative Milk Producers' Union, Ltd., which was the central organization for these societies. The total quantity of milk handled by these societies was 270.27 lakh lbs. in 1953-54. The value of sales was Rs. 68.58 lskhs. The primary societies distributed fodder, cotton seeds valued at Rs. 3.90 lakhs and made a profit of Rs. 3.89 lakhs. The Kaira District Co-operative Producers Milk Union, Anand, follows a scientific method of collecting milk. It purchases milk from its affiliated societies on the basis of butter fat-content in it. The Government purchases milk at a rate varying from Rs. 5-8-0 ot Rs. 7-4-0 per maund during different seasons, on the basis of 6.5% fat. A higher rate is paid in order to encourage the producer to supply more milk and summer-calving in order to even out production of milk. The milk with a butter fat-content less than 6% is rejected. The butter fat-content in milk sold by members to the Union went up to 7.4% in 1953-54. The Union sells milk to the authorities of the Bombay Milk Plan at the same rate at which it purchased from its affiliated societies, but it recovers the cost of pasteurisation and cost of transport to Bombay. During 1953-54 (up to the end of March only) the Union had a paid-up share capital of Rs. 1.94 lakhs, reserve and other funds amounted to Rs. 18.83 lakhs. It collected 289.37 lakh lbs. of milk and sold milk of the value of Rs. 65.84 lakhs. It recovered processing charges of Rs. 120.52 lakhs from Government and made a profit of Rs. 4.89 lakhs during 1953-54.

5. **Uttar Pradesh.** The subjoined table gives the operations of milk co-operatives in U.P. at the end of 1953-54.

Number of societies	...	...	282
Number of members	...	...	7036
Value of milk sold (in lakhs)	...	...	Rs. 9.4
Loans advanced (in lakhs)			Rs. 2.74

There were besides 8 milk supply unions in the State which supervized and controlled the working of primary societies. The value of milk sold by the Unions during 1953-54 amounted to Rs. 42.43 lakhs. Six out of these Unions were equipped with modern pasteruisation plants. The State Government gave recurring and non-recurring grants besides making available to them free services of a gazetterd officer and an inspector to each of the Unions to work as a Manager and an Inspector.

6. **West Bengal**. There were 153 primary milk societies in the State at the end of 1953-54, mostly situated in the suburban districts of Calcutta. Out of these, 94 societies were affiliated to the Calcuatta Milk Supply Union. The Union collected milk from the affiliated societies and sold milk of the value of Rs. 7.50 lakhs to the public. The Union was given free services of an Assistant Registrar to work as Executive Officer and an Inspector to supervise the working of affiliated societies.

Appendix A

Form of Agreement to be signed by a member of the Joint Farming Society

I .... having separately applied for the membership of the————————Co-operative Joint Farming Society, Limited, do hereby agree to place at the disposal of the society the land, bearing S. No............... situated at the village .... Taluka.................District........ for a period of..........................years for purposes of joint cultivation by the Society and hereby authorise the Society to pledge my lands for the loans raised by the Society for carrying out provisions of clause (g) of Bye-law No. 2 and further that in the event of the cessation of my membership of the Society under Bye-law No. 8, I shall repay the cost incurred by the Society on account of any improvements of the said land transferred/let on lease to the Society, as determined by the Managing Committee of the Society.

In the event of the breach of this undertaking the Managing Committee shall be at liberty to take such action against me and have recourse to such measures as may be necessary, at my risk as to costs and consequences for enforcing the undertaking.

(Sd.) ....

(Place) ....

(Date) ....

Witnesses :—

1 ______________________________

2 ______________________________

Appendix 'B'

Rules for the Valuation of Lands in a Joint Farming Society.

1. These Rules may be called the Rules for the Valuation of Agricultural Lands.

2. For the purposes of valuation under these Rules, all lands shall be classified in three categories, viz.,

(1) Jirayat lands,

(2) Rice lands,

(3) Bagayat lands : (i) Patasthal, (ii) Motasthal, and (iii) Canal irrigation.

N.B.—Trees yielding fruit or timber standing on the lands shall be separately valued. In the case of other trees, owners or tenants to whom these belong, shall retain the right to cut them for fuel purposes.

(b) Grass grown on the lands under joint farming will be allowed to be cut and removed by members on payment.

3. In the Settlement Reports published by Government, average sale prices of lands classified in groups and their ratio to the assessment are worked out. In calculating the value of the lands for purpose of Bye-law No. 31, the multiple of assessment to sale prices as worked out for different types of lands in respect of the group to which the village belongs, should be taken as a guide subject to any variations considered necessary having regard to local conditions, provided that the reasons for making such variations are recorded in writing.

4. The Society shall prepare a statement showing details of lands given by each member and the value assigned to it by the Society which will be available for inspection of members. Any dispute regarding the valuation shall be referred to the Assistant Registrar for his decision which shall be final.

5. None of the rules herein contained shall be altered or rescinded and no rule shall be added except by a vote of majority consisting of at least 2/3rd of the members present at a general meeting convened for the purpose. The notice convening the notice shall specify the proposed alteration, addition or rescision and shall be not less then 7 days prior to the meeting. The amendment shall not take effect until it has been approved and registered by the Registrar.

FORM 'R'

(Form of application in which cultivators desiring to form a co-operative society to undertake a Lift Irrigation Scheme and avail of Government subsidy and/or loan are to supply preliminary details).

To,

The Agricultural Engineer to Government, Bombay State, Poona, No. 5

(through the Assistant Registrar of Co-operative Societies ....Division.................).

Sir,

We intend to start a Lift Irrigation Scheme on co-operative basis for the irrigation of our lands in............................ village, ...taluka .... District. The area proposed to be brought undier irrigation is shown in the accompanying village map sketch measuring about............. acres. The water proposed to be pumped is from..................... (river, Nala, pond or well).

The following area of land is proposed to be brought under irrigation during the seasons mentioned below :—

Kharif season	Total acreage
Rabi season	Total acreage
Hot weather season	Total acreage

2. The river/Nala flows throughout during the year / the following months, and carries sufficient flow during that period.

3. The pond well has about.......................feet depth of water and is sufficient for working of...................moats for............................., hours per day during the months mentioned below :—

4. The Lift involved for irrigation of land is..............feet.

5. The length of rising main required will be ... ...feet.

6. The District Co-operative Officer's opinion as to whether the area under command is generally fit for irrigation is enclosed.

7. The necessary sketches for the proposed Lift Irrigation site showing the area proposed to be irrigated with cross seciton of the river at the proposed site showing the lowest summer water level, the annual and extraordinary flood level, the length of rising main and levels along probable alignment of irrigation channel accompany.

(*N. B.*—The irrigation channel referred herein does not relate to distribution channel but relates to the rising main.)

8. The site where engines are proposed to be installed is not liable to submergence.

Yours faithfully,

Documents attached :

1. Village map sketch.
2. Longitudinal section.
3. District Co-operative Officer's opinion.

FORM 'A'

APPLICATION FOR LOAN

We, the undersigned, being duly empowered in this behalf by a resolution of the Managing Committee of the................ Society Ltd., at..Village................. Taluka.....................District......apply for a loan of Rs............ (in words).............................and subsidy of Rs.................. (in words)..............................from the Government of Bombay for the Irrigation Scheme proposed to be undertaken by our Society abovenamed in respect of the lands situated in village ....Taluka........................District........................, particulars of which are specified in para. 7 of this application.

2. The plans and estimates in respect of the Irrigation scheme proposed to be undertaken by our society have been prepared/have been approved/may be got approved by the Agricultural Engineer to Government, Bombay State, Poona, and his report is at Annexure 'C' to this application.

3. We undertake to complete the work of executing the Lift Irrigation Scheme as per the plans and estimates prepared/approved by the Agricultural Engineer to Government, Bombay State, Poona, within such period as may be prescribed by Government/Registrar.

4. We request that the loan be made repayable at the ....Treasury/Sub-Treasury in...................... annual equated instalments, the date of payment of each instalment being................................. . We further, request that the accumulated interest, if any, should be spread over a period of....................years, the same being repayable in equal annual instalments along with the annual equated instalments.

5. The date of registration of the society is................

6. The number of members in the society is...................

7. Particulars of lands proposed to be brought under the irrigation schemes are given in the prescribed form in schedule I attached to this application.

8. A sketch of the lands with the proposed sites, etc. demarcated and distributory channels indicated is also enclosed.

9. The particulars of lands the society proposes to offer in security for the loans is set out in the prescribed forms in Schedule II.

10. The total area proposed to be utilised for food crops is....................acres.

11. The estimated cost of purchase and installation of Irrigation machinery, like engines, pumping sets, foundation, etc., is Rs.

12. The estimated cost of other irrigation works like construction of storage tanks, distributors, laying out drains, pipes, pipe-lines and Jack-wells, etc., is Rs.

13. A detailed statement showing how the cost on recurring and capital expenditure is proposed to be met is also enclosed in Schedule III attached herewith.

14. The present financial position of the Society (*N. B.* Please attach a copy of the latest balance sheet of the Society's assets and liabilities and also state the latest audit classification).

15. The Society/the members of the Society agrees / agree to offer its/their lands in mortgage up to twice the value of the amount of the Government loan as security therefor, in addition to the Government having first charge over the engines, accessories and equipment purchased and constructed out of the Government loan and subsidy. The value of the lands thus offered in mortgage may be ascertained by an officer appointed by the Registrar in this behalf.

16. We attach hereto a copy of the resuloution of the Managing Committee of the Society authorising the borrowing of a

loan and obtaining a subsidy as applied for above from the Government of Bombay and specifying the members of the Committee who may, in conjunction with the Secretary / Chairman receive the amount and enter into an agreement with Government for repayment of the Government loan and matters relating thereto.

Place ....

Signature of the $\frac{\text{Secretary}}{\text{Chairman.}}$

Date......................................

Signature of three members 1.

2.

3.

To,

The Registrar, Co-operative Societies, Bombay State, Poona. through the Assistant Registrar, Co-operative Societies..............

[These forms are taken from leaflet K. K. issued by the Co-operative Department, Bombay.]

SCHEDULE I TO THE APPLICATION FOR LOAN

Statement giving the particulars of lands proposed to be brought under the Lift Irrigation Scheme

Name of Society__________ Village________ Taluka________ District________

S. No.	Name of member	Revenue Survey No.	Area	Assessment	Nature of member's title over or interest in the land according to Record of Rights.	If the land is cultivated by a tenant, has he given his written consent to join the scheme of the society	Estimated value	Nature of crops grown, if any, at present	Remarks (Specify, nature of the land's fertility etc.)
1	2	3	4	5	6	7	8	9	10

Total of relevant columns—

SCHEDULE II TO THE APPLICATION FOR LOAN

Statement giving the particulars of lands proposed to be offered as security for the Government loan.

Name of Society__________ Village__________ Taluka__________ District__________

S.No.	Name of members	Revenue Survey No.	Area	Assessment	Nature of member's title over or interest in the land according to Rocord of Rights	If the land is cultivated by a tenant. has he given his written consent to join the scheme of the society	Estimated values	Nature of crops grown, if any, at preseut	Remarks (Specify nature of the land's fertility etc.)
1	2	3	4	5	6	7	8	9	10

Totals of relevant columns—

SCHEDULE III TO THE APPLICATION FOR LOAN

Statement of Income and Expenditure of the Scheme

Name of Society..........................Village................Taluka................District..........................

Income				Expenditure			
Item No.	Name of item	Quantity or rate	Rs.	Item No.	Name of item.	Rs.	Remarks.
1	2	3	4	5	6		8
(A) *Crops*—							
(1)				1	Cost of cultivation (does not apply to purely irrigation society)		
(2)							
(3)				2	Maintenance & Repair		
(4)				3	Establishment		
(B) *Other Sources*—				4	Depreciation and Replacement		
(1)				5	Interest on loans and amounts of loan instalment		
(2)							
(3)				6	Other charges		
(4)					Balance. (or net annual surplus)		
Total					Total		

N. B.—In the case of a Co-operative Society wherein the lands are under joint cultivation or in the case of societies undertaking other schemes in addition to the irrigation scheme, the income and expenditure figures should be calculated on the terms of othe products grown on the co-operative farm and other sources of income and expenditure involved in the whole scheme of joint cultivation undertaken by the society or the whole business of the society in addition to the irrigation work undertaken by the Society. In the case of a purely irrigation society or a tenant farming society where the lands are cultivated individually the income should be computed on the basis of water rates proposed to be levied on the members per acre and expenditure calculated on the basis of eastablishment charges.

Siguatrre of 3 members :—1

2

3

Signature of Secretary/Chairman

FORM 'B'

REPORT OF INQUIRY OFFICER

1. Name of the society, applying for the Government loan and subsidy. Village .... Taluka .... District

2. Date of application

3. No. and date of registration

4. What is the type of working of the society

5. Are the lands under joint cultivation or individual cultivation ?

6. Total area of the lands proposed to be brought under the scheme of irrigation. State whether statement at item No. 7 of the application is correct.

7. What is the nature of the title, the society or the members have over the lands proposed to be brought under the Lift Irrigation Scheme ? State whether the statement in Schedule II attached to the Loan Application is correct.

8. Are the society or members willing to mortgage its land 'or members' lands valued up to twice the amount of the loan as security therefor in addition to Government having first charge on the engines, accessories, etc. purchased and constructed out of Government loan and subsidy ?

9. Is the security offered by the society or members, adequate ? (check up village records, wherever necessary).

10. State whether the members are willing to put under food crops the percentage

of total irrigated areas as prescribed by the Registrar.

11. Check up the financial position of the society and offer remarks thereon, enclosing a copy of the latest balance sheet.

12. General remarks

Date

Place

Signature and designation of the Enquiry Officer.

To,

The Registrar, Co-operative Societies, Bombay State, Poona.
Through the Assistant Registrar, Co-operative Societies............

FORM 'C'

REPORT OF TECHNICAL EXPERT

1. Name of the society.

......................Village......................Taluka.........District.

2. Date of inspection of the site and the lands involved in the scheme of irrigation.

3. Give a brief description of the scheme of Lift Irrigation proposed to be undertaken by the society.

4. Remarks about the suitability of the site and the technical feasibility of the scheme. (Note :—Enclose sketch of the lands with particulars of sites, etc. demanded and distributory channels indicated).

5. Particulars and specifications of engines, accessories and equipment required.

6. Estimated cost of purchase and installation of irrigation machinery, viz., engines, accessories, pumping sets, laying the foundation, etc. (Give details of estimates).

   (1) Engines and accessories including cost of installation. Rs.

   (2) Pumps and accessories including cost of installation. Rs.

   (3) Intake chambers and pipe lines Rs.

(4) Sump well or Jack well or any other device proposed for direct installation of pumps on suitable foundations. Rs.

(5) Engine sheds Rs.

(6) Rising main Rs.

(7) Discharge or Delivery Tank Rs.

Total, Rs.

7. Estimated cost of other irrigation works like construction of storage tank, distributories, laying of drains, pipes, pipe-lines, etc. (Give details of estimatrs).

(1) Irrigation channels Rs.

(2) Syphons Rs.

(3) Distributors and regulators Rs.

(4) Cross drainage works Rs.

(5) Pipe lines, if any Rs.

(6) Road culvert Rs.

(7) Outlets Rs.

Total Rs.

8. Total area that can be brought under irrigation

9. Details of acreage under crops in different seasons.

(1) Rabi (winter).

(2) Summer.

(3) Perennial.

10. Estimates of Annual income and expenditure (work out details in the statement appended).

(*a*) Estimated income per year

(*b*) Estimated annual recurring expenditure (Maintenance and repairs plus establishment plus Depreciation and replacements plus amount of interest on loan.)

(*c*) Is the scheme feasible ?

11. What is the time required for completion of the irrigation work ?

2. General remarks

Date

Place Signature of Agricultural Engineer to Government

Designation

To,

The Registrar, Co-operative Societies, Bombay State, Poona.
Copy forwarded to the Assistant Registrar, Co-operative Societies.................................

ACCOMPANIMENT TO TECHNICAL EXPERTS' REPORT

Statement of income and expenditure.

Name of society. Village. Taluka District.

Income.				Expenditure.			Remarks.
Item No.	Name of item.	Quantity or rate	Rs.	Item No.	Name of item.	Rs.	
1.	2.	3.	4.	5.	6.	7.	8.

(*N. B.*)—In the case of a Co-operative Society wherein the lands are under joint cultivation or in the case of societies undertaking other schemes in addition to the irrigation scheme, the income and expenditure involved in the whole scheme of joint cultivation undertaken by the Society or the whole business of the society in addition to the irrigation work undertaken by the Society should be given. In the case of a purely irrigation society or a tenant farming society where the lands are cultivated individually, the income should be computed on the basis of water rates proposed to be levied on the members per acre and expenditure calculated on the basis of establishment charges, maintenance and repair, depreciation and other charges to be borne by the Society.

Date :

Signature and Designation of

Place

the Technical Expert.

CHAPTER XIII (Part I)

*WHY CO-OPERATIVE MARKETING ?

The agriculturist-producer in most of the underdeveloped countries of the world is a poor man. In order to fight poverty two things are necessary : he must either improve his output both quantitatively and qualitatively or he must be enabled to get a larger share of the final price paid by the consumer. In India the agriculturist is by and large a small producer and the bulk of his produce is sold in the village—a fact that gives rise to a host of unnecessary middlemen between him and the final users of his product. Even when he takes his produce to the market dominated by the middlemen, he labours under various handicaps in the disposal of his produce. Prices, weights and measures are manipulated against him, and undefined and unjust reductions are made from the price. He is made to pay charities which go to feed the institutions useful for urban population. When disputes arise in regard to quality and other factors, there is no impartial machinery to settle the disputes. This situation can only be remedied if the farmers sell their crops collectively through their own marketing co-operatives instead of selling them individually in the unorganized markets, because co-operation is a weapon to bring about the correction of many of the abuses of the private marketing system and in this sense the benefits of co-operation are given to all farmers whether or not they become members of co-operatives.

2. **Advantages of Co-operative Marketing of Agricultural Produce.**

The advantages of co-operative marketing are :

(a) Marketing services are rendered at lower costs.

(b) A larger portion of the final price paid by the consumer is obtained by the producers.

Note:—For a fuller treatment of this subject, please see Author's 'Agricultural Marketing in India', Vol. IInd.

(c) As economy in the cost of marketing is effected, better prices are obtained for the producers who market their products through the society.

(d) As the marketing co-operative pays the members according to the quality of products sold, a distinct incentive is held out to the producers to improve the quality of their products.

(e) In addition to the price advantage which is secured by a marketing co-operative, it also increases the collective bargaining power of the farmers.

(f) As the marketing co-operative adjusts the flow of products, so as to conform to the desires of the market, stabilization of prices is brought about as a result of steady supplies.

(g) In order to enable the farmers to hold their produce for a better market, storage facilities are provided and thus the farmers are enabled to get cheaper marketing finance against the pledge of their produce.

(h) Co-operative marketing teaches farmers business methods and gives them business eduction.

3. **The Aim of a Marketing Co-operative** : In the words of Margaret Digby, "The aim of every marketing co-operative is to sell the members' produce directly in the best market and in a state which attracts the best price. It gives the same service to large growers and small. It helps the members produce the best products and those most in demand. It gives fair weight. It grades in such a way that the best price is obtained for all qualities to the advantage of the growers. It aims at handling the crop cleanly, without damage or waste, in a way that will increase and not decrease its value. It stands for fair trading practices and uses its influence against rings and the manipulation of prices. By making advances on fair terms it helps the member to finance himself while he is waiting for the crop to ripen. It does what it can do even out the differences between good and bad years. It gives farmers a better understanding of all stages in the marketing process.

4. **The Need for Preliminary Investigation and Essentials of Success of Marketing Co-operatives.** It may be noted that

modern marketing is a complicated process and the farmer can have no influence except on one or two links in the chain. Co-operative marketing is by no means easy or fool-proof. In many parts of the world, the success of co-operative marketing is not so significant as it is in countries like Denmark and U.S.A., because it is not well understood. There is always the need, therefore, to proceed with caution. It would also be necessary to study the relevant conditions of the particular area before a marketing co-operative is started. In order to ensure its success there should be a real and distinct need for it and a definite objective as well in view. The produce sought to be sold co-operatively, must be such as to contribute substantially to the income of the farmers. Past experience has shown that commodity principle must have to be observed in order to ensure its success. It is also found that co-operatives that handle produce for export show a better record than those meant for handling produce for internal trade. If the marketing co-operative is not to fail, it must command not only adequate amount of finance but also an adequate volume of products as well, from members. This would be possible only if the members are by and large loyal to the institution and bring the requisite custom to it. In addition to all these requisites, a marketing co-operative should also be efficiently managed, as bad management is often the cause of failure of private as well as co-operative enterprises. Efficient management cannot, however, be ensured without proper leadership.

5. **Marketing Structure at different Levels**: As already mentioned in a previous paragraph, there are considerable advantages if co-operative marketing is on a large scale. The greater the quantity of produce handled, the lower is the cost of handling each unit of produce. With the bulk of produce assured to a marketing co-operative, more convenient godowns or warehouses can be built and more competent and well-paid staff appointed. Furthermore, it is easier to make a good bargain on a larger deal than on a smaller one and there is a less danger also that the rivals would undercut prices or upset grades. These considerations have influenced the organization of a centralized association in the U. S. A. covering a wide area with thousands of members.

In a country like the U. S. A. where large-scale farming is in vogue and where communications are easy, such centralized associations have advantages of their own. The only draw-back of a centralized association is that it loses contact with its members who evince no interest in its affairs, the whole show being run by the paid officials and the more active Directors on the Board of Management. Members do not know how such an association is run and do not care to know also, so long as nothing goes wrong with it. Why a centralized association is favoured, apart from the reasons given above is that it can be organized in a short time. The Washington Co-operative Egg and Poultry Association furnishes an example of a centralized type of association. The organization is built from top to bottom. A federated type of association is, on the other hand, built from bottom upwards. In areas where the primary co-operative marketing society is a small one, its size being dependent on the job to be done, the bargaining power of co-operative marketing can be built by a federation. A federation is composed of local primaries only, instead of individual farmers. These local societies attend the general meetings of the federation through their delegates and it is they who elect the Managing Committee. A federation may cover only one region of a large country or the whole of a small one. If it is a regional one, it may join with other regional federations to form a national association. There are some federations which do not handle any commodity or engage in trade but are concerned with general conditions affecting co-operatives in the marketing of a particular commodity. Such federations enter into relations with Government and the Railway Companies on behalf of co-operatives and tender legal and technical aid, wherever necessary. They also supervise and audit the accounts of the primaries affiliated to them. Such a federation will have only an office and a secretary and one or two specialists to advise the primaries. While deciding the pattern of organization of co-operative marketing societies at different levels in this country, the two main functions of marketing co-operatives will have to be considered, viz., (1) supply of farm requirements and (2) marketing of agricultural produce. For the former, it is necessary to have an institution at the apex level and for the latter, it is necessary to have an institution at

the primary level or bottom. Simultaneous action is, therefore necessary to build up the co-operative marketing structure at the bottom and at the top. In so far as the intermediate level is concerned, no hard and fast rule can be laid down. There should be an institution at the intermediate level only if there is a clear need for it and certain economic advantages can be derived therefrom. An institution at the intermediate level will be necessary if it is likely to help in obtaining better prices for agricultural produce or in rendering any particular service such as processing. The intermediate organization may be organized on a regional basis or districtwise according to the circumstances of each case. The function of an institution at an intermediate level will have to be decided ultimately by the Co-operative Department, the District Central Bank and the Co-operative Societies operating in the area acting together.

As regards the formation of a primary marketing co-operative at the base, it may be stated that the efficiency of the co-operative marketing organization is indissolubly linked with the efficiency of the co-operative agency making finance available for the raising of crops. Unless credit co-operatives have sufficiently been developed in a particular area, the marketing co-operative can achieve only a limited success. Efforts are, therefore, needed in the first instance to start as many thrift and credit societies in villages as possible, or a larger-sized credit society in the place where a primary marketing co-operative is situated. Such primaries working within a radius of five to ten miles need be linked up with another co-operative organization called a multi-purpose society on a limited liability basis working in a minor market place or a place where weekly bazars are held, not only for the purpose of dispensing credit but also for undertaking the sale of produce and supply work. Care, however, should be taken in regard to the selection of a place where a multi-purpose society is to be started. Three or four multi-purpose societies working in minor markets in a Tehsil or a Taluq should act as feeders to a primary marketing co-operative established at either a Taluka place or a major market or mandi where the agriculturists usually take their produce for sale and where the commission agents are engaged in the disposal of

produce. Where a larger-sized credit society functions, it will act as a feeder to the marketing co-operative operating at a major market place or mandi. Where the multi-purpose societies are started in minor market places, they will act as feeders to the primary marketing co-operative. Thus credit would get linked up with marketing either through the agency of a co-operative multi-purpose society or a larger-sized credit society. The primary co-operative credit societies in villages or the larger-sized credit society should finance the production of crops on condition that the farmers should sell their produce through the neighbouring sale organization. In order to see that the members in receipt of finance honour their obligations, the system of controlled credit has been introduced in Madras, but it has succeeded only partially in repect of commercial crops, though the scheme was recommended for adoption elsewhere by the Co-operative Planning Committee and the Reserve Bank of India. In order to complete the pyramidal structure of co-operative marketing in a State, the institutions at the intermediate level, if started, or the primary marketing co-operatives would have to be affiliated to an apex co-operative marketing organization operating at the terminal market. Thus truly a federal co-operative marketing structure would be built up from bottom upwards, but this process is necessarily slow and requires time. A State Marketing Co-operative, when established, may join similar institutions to form a National Marketing Organization for the country as a whole. As regards single-commodity marketing co-operatives handling commercial crops like cotton, jute, oil-seeds, their work also would require to be closely linked up with a regional marketing organization which, in its turn, would affiliate itself to the State Marketing Co-operative for that particular commodity. Such States Exchanges would then unite into an All-India Exchange. Such Exchanges established for handling individual commodities would greatly assist in the work of the State Trading Corporation established by the Union Government. This is, in brief, the outline of co-operative marketing structure that requires to be evolved in the near future. The recent Conferences on Marketing and Co-operation held at

Hyderabad and Jaipur adopted resolutions to the effect that the structure of co-operative marketing organization should normally consist of two tiers only, viz., the primary and the apex body. If, however, the State Governments considered an intermediate federation to be necessary, then it might have a three-tier structure. In regard to the location of the primary marketing society, another resolution was adopted to the following effect :—

" The Office of the Primary Marketing Society and its godown should as far as possible be located within or near the premises of a regulated market and very close to a Railway Station or a main road in order to facilitate produce being brought to it and sent to other destinations."

6. **Membership of Federations of Marketing Co-operatives :** The membership of marketing federations at the intermediate and the apex levels need not merely consist of local co-operatives. Examples of successful federations whose membership is mixed, i.e., composed of both individuals and primary societies, are found in certain parts of the world. In the Bombay State, mixed membership is the rule. Individuals are admitted to membership at the secondary level with a view to obtaining the advantage of more share capital and local initiative and assistance in the management of the concern, as the representatives of farmers are often not able to run such institutions efficiently. When individuals are admitted, problems of their representation on the management and voting at General Meetings etc. naturally arise, and these can be solved by making suitable provisions in the bye-laws.

7. **Establishment of National Marketing Boards** : It is important for organizers or promoters of a marketing co-operative to find out whether any National Co-operative Marketing or Export Board exists or whether any restrictions are imposed on the sale of a crop to be handled co-operatively, by the Government Departments. Sometimes a system of marketing is established for a particular crop which gives no scope for co-operative action, but this appears to be less common. On the contrary, it is more usual to find that the Marketing Board acts through local agents who may be traders or co-operatives. Through

the device of a Marketing Board agricultural marketing comes to be centralized, and competition controlled, and the position of the agriculturists made more secure. First conceived as a form of co-operation with the support from public authorities, it has developed on different lines in different countries, and in some countries its relationship with the Farmers' Co-operatives is less well defined. Queensland, (Australia) was the first to establish a Marketing Board in 1921 as a marketing device to hold up prices. Though the effort was not wholly successful, it opened possibilities of reorganizing co-operative marketing and of improvement of transport and storage facilities, borrowings from Government for building of processing plants and the discovery of new markets. A similar system has been introduced in a number of other countries too. In Norway, e.g., a Milk Marketing Scheme was built up entirely out of the existing co-operative dairy societies with the addition of a Central Co-ordinating Body with powers to take general decisions. Its objects were to regulate the flow of milk, stabilize prices and convert surplus milk into butter and cheese. In the U. K., on the contrary, the co-operative dairies were given no part in the running of the Milk Marketing Scheme. The Co-operative consumers' movement in England is stoutly opposed to the method of producers' control sanctioned by the Agricultural Marketing Acts of 1931 and 1933 for various reasons. The Milk Marketing Scheme has enhanced the price of milk to the consumer and the consumers' movement is rightly demanding recognition of its rights to regulate trading in commodities controlled by the Board. If the conflict is to be resolved, what appears desirable is for producers to have a full-fledged co-operative organization of their own, instead of a Marketing Board, as an intermediary step and then the producers' co-operative movement would feel its solidarity with the co-operative consumers' movement. It should then be possible to set up Joint Board on a federal basis in order to fix fair prices of products handled in the interests of producers and consumers.

8. **Limitations of Co-operative Marketing** : It may be noted that the principle of voluntarism which the co-operative movement advocates provides within itself a limiting factor to

its growth. The co-operative movement, being in essence democratic, can only grow after using education and conviction as its main weapons for its advance. This applies with equal force to marketing co-operatives. It should further be remembered that co-operation is a mass movement as well, and it is not an easy task to persuade the people to participate in the affairs of a co-operative. In a marketing co-operative whose membership is hetrogenous, it is difficult to keep up the enthusiasm of its members, unless its performance is adequate enough to keep them together. Unless the human inertia is conquered, the success of a marketing co-operative would be limited. Other causes which lead to the limited success of a marketing co-operative have already been referred to elsewhere.

Again, " Where there is no effective control over production and the activities of non-members, price stabilization inevitably results in expanded output. Unless new markets are to be found for new production, any attempt to hold prices above competitive level is bound to fail and the association loses control of its membership. Nearly all co-operative groups have learnt this lesson, and sell at market prices. The inability of the co-operative association to control the production of individual members, not to mention of the production of non-members, constitutes one of the major weaknesses of any attempt to achieve monopoly control." (Vide pages 328-329, " Marketing " by Duddy and Revzan.)

Further, " it has already been pointed out that farmers' organizations are of benefit in overcoming the defects of marketing at country points, that much can be done in the wholesale markets, and in the case of consumption goods it is possible to influence consumption through advertising and by means of assistance to wholesalers and retailers. But the suggestion that reorganization of the whole system of marketing from producer to consumer along co-operative lines would greatly improve marketing, seems fanciful. On the whole, the wholesale traders have reached a high degree of efficiency, and there is little reason to believe that efficiency can be greatly increased by extending the principle of co-operative marketing to include wholesaling.

Furthermore, many of the defects of the present system can be remedied much more easily in other ways. Co-operation has its place and deserves encouragement; but we should not be misled as to its possibilities." (Vide page 645 " Marketing Agricultural Products " by Clerk and Weld.)

9. General Observations : In Part II of this Chapter an attempt is made to review the working of marketing co-operatives in most of the States in the Indian Union. It would be seen therefrom that, barring a few States like Bombay, Madras, etc., co-operative marketing has not yet developed on any very significant scale partly because of the usual obstacles created by merchant-moneylenders and the operations of controls over foodgrains and other essential commodities that lasted for nearly a decade and a half during and after the World War II and partly because of the fact that Government efforts in promoting co-operative enterprises were first directed to credit problems. During recent years, the tendency everywhere to form multi-purpose co-operatives has led to more activity in marketing and the emphasis now laid on the development of adequate warhousing facilities in the Second Five-Year Plan, would go a great way in helping the development of co-operative marketing, particularly through facilitating the provision of short-term credit for marketing purposes. In Chapter VIII on " Association for Marketing and Processing ", the Rural Progress through Co-operatives—a United Nations' Publication—suggests ways how lack of progress in marketing could be overcome. It observes :

" These considerations suggest that lack of progress in marketing can be overcome in three chief ways, the relative importance of each depending on local circumstances : (a) by ensuring greater competition between the various middlemen and organizations concerned and by facilitating their operations through the provision of basic services—roads and other transport facilities, more and suitably located stores, improved and extended market information services, effective arrangements for standardization and inspection of weights and measures, and better credit facilities; (b) by promoting larger scale operations where this results in true economy ; and (c) by ensuring that mono-

poly powers are not used against the interests of producersor consumers. Co-operative societies can contribute in each of these three directions and are frequently more appropriate than statutory monopolies or other types of comparatively direct government operation."

12. The said publication goes on further and mentions instances of successful marketing co-operatives and their limitations in different countries, and while referring to the experience of the Philppines in the Far East, it writes :

"In the Far East, the experience of the Philippines illustrates how difficult it is to achieve sound co-operative marketing societies while farmers remain indebted to local merchant-money-lenders. Credit conditions must be improved along with marketing. Most attempts to promote co-operative marketing in the Philippines failed for this reason and because able and honest staff to serve co-operatives were not available in sufficient numbers. The economic purpose for which co-operatives were founded were also not sufficiently and uniformly important to prospective members. The only outstanding success in the Philippines prior to the Second World War was in the marketing of eggs and poultry from a locality where production was being improved by advice and help from government technicians. The additional production and better quality of products arising, together with other incentives stemming from technical progress, induced and fostered co-operative organization."

While writing about Britain, it observes :

"Experience of co-operative marketing in Britain also indicates some of the conditions essential to success. Before the Second World War, British farmers had co-operated to sell only a very small part of their total produce, but through their purchasing co-operatives they were obtaining 14 per cent. of their feed and fertilizers. This difference was largely owing to the fact that, in purchasing, farmers faced conditions of imperfect competition and monopoly and by co-operation could often be more efficient than private firms in the distribution of requisites, but in selling their produce, they usually had many outlets and competed more directly among themselves in supplying consumers'

markets close at hand. Also, the establishment of statutory marketing boards to raise prices for milk, potatoes, hops and pigs reduced the incentive to organize voluntary marketing co-operatives for these products. During the Second World War, co-operatives for assembling and packing eggs were promoted as a means of procuring egg supplies for officially controlled distribution. These co-operatives were favoured by farmers and many became technically efficient. There were also, under Government price controls, developments in the co-operative marketing of grain and other products, but even at the end of the Second World War, co-operatives were not marketing for their members more than 2 per cent. of the total output of United Kingdom farmers."

11. Recommendations of the Conferences on Co-operation and Marketing. In view of the important role assigned to co-operative marketing in the development of rural economy, as visualized in the Second Five-Year Plan, a recent Conference on Marketing and Co-operation held at Jaipur from 3rd to 5th February 1956, agreeing with recommendations made by a similar Conference held earlier at Hyderabad from 27th to 29th November 1955, adopted the following recommendations :—

(A) Methods for implementing the programme of marketing.

(1) Since the larger-sized agricultural credit societies will in future be giving production loans on a much larger scale and as such loans will be recovered mainly through co-operative marketing societies, it will be necessary to organize co-operative marketing societies hand in hand with credit societies and in some cases even in advance of them. The plans of the State Governments in the first two years of the Second Five Year-Plan period should, therefore, provide for the setting up or reorganization of as many co-operative marketing societies as may be possible. These marketing societies will not only help organised selling and recovery of loans granted by co-operative credit societies but will also supply seeds, fertilizers and other production requisites to credit societies.

(2) For carrying out the activities of the primary marketing and larger-sized credit societies effectively, the following division of functions between them may be adopted :—

(i) The credit society will be responsible for giving production loans in cash or in kind, including production requisites such as seeds, fertilizers, implements, etc. valued in cash;

(ii) the marketing society, on the other hand, will generally confine its activities to the giving of loans on the pledge of agricultural produce delivered to it for sale; in special cases it might also make outright purchases, which should be kept as low as possible; it will also act as a recovering agent of the credit co-operative in respect of production loans advanced by the latter. Although, as a general rule, the marketing society will not provide production credit to its members, the State Government may, for special reasons, permit it to do so in exceptional cases;

(iii) the credit society will not itself undertake marketing, but may collect the produce on behalf of the marketing society and even store it temporarily until it is sent to the marketing society. It may also grant temporary financial accommodation to its members against stocks held; and

(iv) specific arrangements should be made, either by agreement or by legislation, to ensure that every agriculturist member who takes a production loan from the credit society, sells his produce through the marketing society, to which the credit society is affiliated.

3. While steps should be taken for the construction of godowns for the marketing societies as early as possible, it may be necessary for these societies to hire godowns until their construction is completed. In order to enable the marketing societies and larger-sized credit societies to hire godowns, a subsidy up to 50 per cent. of the rent of the godown for the first year of the hiring of such godown may be given and this should be shared equally between the Central and State Governments. Government may also release to them such godowns from the Food Department as can be spared. In the meanwhile, requirements of iron and steel and cement may be ascertained by the State

markets close at hand. Also, the establishment of statutory marketing boards to raise prices for milk, potatoes, hops and pigs reduced the incentive to organize voluntary marketing co-operatives for these products. During the Second World War, co-operatives for assembling and packing eggs were promoted as a means of procuring egg supplies for officially controlled distribution. These co-operatives were favoured by farmers and many became technically efficient. There were also, under Government price controls, developments in the co-operative marketing of grain and other products, but even at the end of the Second World War, co-operatives were not marketing for their members more than 2 per cent. of the total output of United Kingdom farmers."

11. Recommendations of the Conferences on Co-operation and Marketing. In view of the important role assigned to co-operative marketing in the development of rural economy, as visualized in the Second Five-Year Plan, a recent Conference on Marketing and Co-operation held at Jaipur from 3rd to 5th February 1956, agreeing with recommendations made by a similar Conference held earlier at Hyderabad from 27th to 29th November 1955, adopted the following recommendations :—

(A) Methods for implementing the programme of marketing.

(1) Since the larger-sized agricultural credit societies will in future be giving production loans on a much larger scale and as such loans will be recovered mainly through co-operative marketing societies, it will be necessary to organize co-operative marketing societies hand in hand with credit societies and in some cases even in advance of them. The plans of the State Governments in the first two years of the Second Five Year-Plan period should, therefore, provide for the setting up or reorganization of as many co-operative marketing societies as may be possible. These marketing societies will not only help organised selling and recovery of loans granted by co-operative credit societies but will also supply seeds, fertilizers and other production requisites to credit societies.

(2) For carrying out the activities of the primary marketing and larger-sized credit societies effectively, the following division of functions between them may be adopted :—

(i) The credit society will be responsible for giving production loans in cash or in kind, including production requisites such as seeds, fertilizers, implements, etc. valued in cash;

(ii) the marketing society, on the other hand, will generally confine its activities to the giving of loans on the pledge of agricultural produce delivered to it for sale; in special cases it might also make outright purchases, which should be kept as low as possible; it will also act as a recovering agent of the credit co-operative in respect of production loans advanced by the latter. Although, as a general rule, the marketing society will not provide production credit to its members, the State Government may, for special reasons, permit it to do so in exceptional cases;

(iii) the credit society will not itself undertake marketing, but may collect the produce on behalf of the marketing society and even store it temporarily until it is sent to the marketing society. It may also grant temporary financial accommodation to its members against stocks held; and

(iv) specific arrangements should be made, either by agreement or by legislation, to ensure that every agriculturist member who takes a production loan from the credit society, sells his produce through the marketing society, to which the credit society is affiliated.

3. While steps should be taken for the construction of godowns for the marketing societies as early as possible, it may be necessary for these societies to hire godowns until their construction is completed. In order to enable the marketing societies and larger-sized credit societies to hire godowns, a subsidy up to 50 per cent. of the rent of the godown for the first year of the hiring of such godown may be given and this should be shared equally between the Central and State Governments. Government may also release to them such godowns from the Food Department as can be spared. In the meanwhile, requirements of iron and steel and cement may be ascertained by the State

Government and communicated to the Government of India, Ministry of Food and Agriculture, who should arrange for a high priority for their supply.

4. Suitable designs for godown construction for various commodities should be prepared by the Government of India and provided to co-operative societies through State Governments.

5. Marketing co-operatives should devote special attention to the major agricultural commodities of the area to start with. This should not, however, preclude them from undertaking the marketing of other crops delivered to them.

6. Proper co-ordination of functions between the primary marketing societies and similar organizations at higher levels should be evolved. In order to promote this co-ordination, the primary marketing societies should send prescribed returns to the apex society or federation giving information about local sales, prices, arrivals, stocks, volume of trade handled by them, etc. and the apex bodies should in turn actively assist the primary societies in arranging sales in favourable markets.

7. The structure of co-operative marketing organization may normally consist of two tiers, namely, the primary and the apex body. As far as possible, apex marketing co-operative societies should be organized along with primary marketing societies so that arrangements for the supply of production requisites, such as fertilizers, seeds, etc. may be facilitated. If however, the Governments consider an intermediate federation of primary marketing societies necessary for any particular region, this may be allowed.

8. The membership of primary marketing societies should consist of agricultural producers, including agricultural credit societies. A trader, even if he is an agriculturist, but who deals in the same line of commodities in which the marketing society deals, should not be allowed to become a member.

9. While selecting a centre for the organization of a co-operative marketing society, it should be seen that it is located

at or as near as possible to a mandi, which is also close to a railway station, a main road or a waterway.

(B) Marketing Finance :

1. The minium share capital of a primary marketing society should generally be not less than Rs. 20,000, but every effort should be made to increase this share capital to at least Rs. 50,000 as quickly as possible. The maximum crdit limit for such a society should ordinarily be eight times its owned capital. This credit limit may be relaxed wherever special conditions warrant. The society can also borrow from a bank on the pledge of produce.

2. It is necessary to make marketing finance available to the agriculturist at as low a rate as possible, and in any case not exceeding the rate at which production credit is made available to him. Loans required for making contributions to the share capital of marketing societies and for the construction of godowns of marketing and large-sized credit societies should be made available by the Central Government at the same rate at which loans are given by the Reserve Bank to enable the State Governments to participate in the share capital of co-operative credit institutions.

3. The co-operative marketing societies should normally obtain financial accommodation from the central co-operative banks, only. In cases where the central banks and the apex banks cannot provide requisite finance, the Registrar of Co-operative Societies may permit a marketing society to obtain the necessary accommodation from the State Bank of India or any other commercial bank.

4. Since a large part of marketing finance will have to be obtained from the central banks, as cheaply as possible, it is necessary to strengthen the Central Banks, with that end in view, steps should be taken immediately to amalgamate existing small and uneconomic banking units.

(C) **Processing :**

1. In view of the fact that processing of agricultural produce

is an important adjunct to marketing for ensuring the maximum return to the producer, it is necessary that a workable method of financing co-operative processing societies should be devised. The following formula would suit the purpose :—

Block Capital :

(i)	Members' share capital	... 20 to 25 per cent.
(ii)	Government share capital	... 20 to 25 per cent.
(iii)	Loans from Financial Corporations	... 50 to 60 per cent.

Working Capital :

Loans from co-operative financing banks.

12. **What a Marketing Co-operative does and how it works :** It may be mentioned at the outset that co-operatives are formed to handle many types of agricultural products in different parts of the world. There is not a single agricultural product which is not somewhere successfully sold by a marketing co-operative. This does not mean, however, that the problems presented by co-operatives handling different kinds of agricultural produce are the same. In fact, each commodity presents its own problems, and the technique of a co-operative handling one kind of product has nothing in common with that handling another type of agricultural product. For example, a grain marketing co-operative has its own problems different from those of a marketing co-operative handling highly perishable products like fresh fruits or vegetables. Some crops again go through much more elaborate processing and get continuously transformed before they can be put on the market. The animal husbandry products like eggs, milk, meat, wool etc. raise their own problems of co-operative handling. What is attempted in the following paragraphs is an account of the working of a marketing co-operative handling agricultural products in general;

(i) **Origin of a Marketing Co-operative** : The idea of starting a marketing co-operative may, in the first instance, originate with the farmers themselves. If, however, they are too conservative or timid to make any new move, the intiative may come from

an organizer who is specially qualified for the purpose and who may be either in the employment of Government or a Federation. Whatever may be the source of the initiative, it is necessary for the promoters to seek advice from a disinterested source.

(ii) **Need for Modest Beginnings** : To start with, the promoters would be well advised to begin with not more than one or two simple steps. They may start by collecting the produce and selling it to a commission agent who offers the best price. Later on, when it is well established and gains in some experience, it may take on other processes.

(iii) **The need for Registration under the Law** : After satisfying themselves about the chances of success of a marketing co-operative proposed to be established, the next step is for the organizer or the promoters to draw up a set of bye-laws defining the objects of the association, the sources from which capital is to be raised, persons to be admitted to membership etc. Occasionally, the bye-laws may also provide for disqualifications for membership. The duties and rights of the Managing Committee, the functions and powers of the General Meeting, the staff to be appointed and their duties and responsibilities, the distribution of profits and building up of reserves are matters which normally find place in the bye-laws. As a co-operative is not a capitalistic concern, shares are subscribed by all the members in the same value, and it is normally provided in the bye-laws that no member may hold shares exceeding a certain amount subject to an overall limit of one-fifth of the total share capital of the society. In addition to contributing to the share capital, it is common for members to give an undertaking to deliver all their marketable surplus to the society. This obligation is normally included in the bye-laws and if a member fails to honour his obligation, he agrees to pay a penalty also which is seldom enforced by marketing co-operatives in India. After carefully drawing up the bye-laws which have to be in conformity with the Act and the Rules, an application to register the society has to be made to the Registrar or his Deputy by at least ten persons who are of the age of majority. After registration, the society becomes a body corporate with a perpetual succession and a common

seal. This is important because it enables a co-operative to enter into contracts in its own name, to buy and sell, invest monies, own property and sue and be sued in its own name and not in the names of all the members whose number may often run into hundreds and even into thousands.

(iv) **The Area of Operation of a Marketing Co-operative**: The area of operation and the headquarters of a marketing co-operative will have to be decided with reference to local conditions. The area chosen would coincide with the area of the market, the volume and type of produce to be handled. For example, the area of a paddy marketing society may be confined to a taluka but in case of commercial crops like groundnut and cotton, the area may extend to a whole district or to the whole of the tract growing the crops. Thus a distinction is sought to be made between the subsistence area and the cash crop area. "In so far as subsistence crop production is concerned, the difficulty in organizing marketing to local urban centres is that the surplus for sale produced by each farmer is so small that the cost of collecting produce is high,—while the urban market is too small to offer much scope for large-scale economies in marketing." (*Vide* page 261, Volume II, Rural Credit Survey Report). It is important that the headquarters of a marketing co-operative should be located at a major market place or an important marketing centre.

(v) **Membership of a Marketing Co-operative**: Membership of primary marketing societies should consist of—

(1) Individual agricultural producers ;

(2) larger-sized credit societies or small credit societies ;

(3) multi-purpose societies working in its area.

Traders should only be admitted as 'B' class members (nominal members) without right to vote or to participate in the management and profits of the society, and that too only in such cases where they have dealings with the marketing society. The object is that in case of dispute, it should be possible for the Co-operative Department to proceed against them under arbitration rules.

It is urged by some people that more prominence should be given to cooperatives and individuals should be admitted only as nominal members. But this would bring about an important change in the composition of a marketing co-operative which is a complicated type of organization. In view of the need for individuals participating in the management and contributing to the share capital, so as to give it the much needed stability, the existing practice of having individual agriculturists and societies as members need not at present be interfered with.

(vi) **Objects of a Marketing Co-operative** : The objects of a marketing co-operative are :—

(1) To advance loans to members on the security of their produce.

(2) To arrange for the sale of produce to the best advantage.

(3) To rent or own godowns to facilitate the grant of loans and sale of members' produce.

(4) To purchase seeds, manures, implements and other agricultural requirements either for sale or distribution to the members or to other co-operative societies.

(5) To undertake activities in connection with grading, pooling and processing of agricultural produce on behalf of members.

(6) To act as the agent of affiliated societies in the matter of receiving for safe custody in its godowns or elsewhere the produce pledged to the affiliated societies by their individual members.

(7) Generally to promote the economic interests of its members by encouraging self-help, thrift and better farming among members.

(vii) **Capital Structure and Capital Requirements** : A marketing co-operative requires fairly large capital resources. Its capital requirements would naturally vary according to the type of work undertaken by the society and the commodities handled and the volume thereof. In the present state of develop-

ment the minimum share capital should generally be Rs. 50,000 of which Government would contribute Rs. 25,000. The maximum credit limit for such a society is ordinarily eight times its owned capital. This limit is permitted to be exceeded in respect of loans given on the pledge of agricultural produce. The capital requirements of a marketing co-operative are of three types : Short-term or working capital for about a year; medium-term capital for about a period of three to five years, and long-term capital of more than five years. Short-term capital is needed for financing such needs as advances for production, grant of produce-pledge loans, purchase of produce, meeting contingent and other establishment expenses like rent, salary, wages, stationery, etc.; medium-term for making purchases of motor trucks and long-term for installation of machinery, putting up buildings, office premises and the like. The problem mainly centres round how far ahead it is wise for a marketing co-operative to look at the outset. In some countries experience shows that co-operatives have suffered for being too ambitious. They locked up all their available capital in putting up magnificent buildings, but buildings alone are not everything. But the position is different if the marketing co-operative is going to alter the product in any way,—crush oil seeds, turn milk into butter, or thresh grain, if it intends to grade a product, it will need machinery, or if the product is to be delivered to a distant market, transport will be necessary and motor trucks will have to be purchased. All these things are capital costs which have to be met as soon as a marketing co-operative begins to work. For fixed capital requirements, a marketing co-operative will have to raise funds by means of share capital, or in the form of debentures or loans from Government, and for other needs the sources would be a loan from a central financing agency, deposits from members or non-members and marketing finance by the Reserve Bank. When it becomes necessary to borrow, it is not possible to do so without offering security. One form of security may be a mortgage on the building which a co-operative has put up and another is the guarantee which the members are prepared to give for repayment of the loan. It may be noted that a co-operative with unlimited liability is in a better position to borrow funds than one with limited liability, as it offers greater security to the lender. Sometimes

it becomes difficult to raise funds on the security of machinery or other equipment, but the position is different as regards a crop once it is lodged in the godown of a marketing co-operative. It is possible to borrow money on the security of warehouse receipt or warrant for the crop stored from the banking system. This method goes a long way in solving the problem of prompt payment to a member who has delivered the crop and wants some money for meeting his urgent needs. At the outset a marketing co-operative has to depend a good deal upon outside sources of capital. As it gets established with the passage of time, it should aim at a large measure of financial self-sufficiency. This can be achieved, firstly, by increasing the share capital and, secondly, by getting the member to agree that all or part of his portion of the surplus profit be paid into his deposit or loan account, instead of making payment in cash to him. Another important source of capital is the reserve. The bye-laws lay down that at least 25% of the net profits should be appropriated towards the reserve. One great advantage of reserves over other forms of capital is that no interest is payable on them. Shares subscribed by members carry dividend and loans carry a fairly high rate of interest, but reserves are interest-free. One other method of accumulating capital is by way of the revolving fund. The Revolving Fund Plan of financing a co-operative is distinctly co-operative in its nature and is adopted by marketing co-operatives in North America. It is a device to secure fixed capital from members in proportion to their patronage without involving long-term investment. The members under the plan authorize the Committee to make a small money levy on every unit of produce brought to the society or to retain some part of the profit due to them at the end of the year. This money is credited to the member's account as a loan from him to the co-operative normally for a period of not less than five years. Interest is paid on it and the co-operative guarantees to repay it at the end of five years. The rotating plan is in its essence a system of issuing certificates of indebtedness annually in equal amounts, so that one issue redeems a prior issue. Suppose, for example, that in 1952 a marketing co-operative has patronage dividends available to the extent of Rs. 60,000 and an Association decides to deduct 10 per cent therefrom for each

member's bonus due to him and issues in all Rs. 6,000 worth of certificates bearing interest and maturing in five years. In the following year, deductions are made, so as to accumulate similar amounts, so that when the revolving fund plan fully operates for a period of five years, a continuous revolving capital of Rs. 30,000 will be in the hands of the co-operative at all times. In 1957, e.g., the amount deducted from members or amounts available as bonus to members out of profits may be Rs. 1,20,000 and if the Association decides to deduct only 5 per cent out of this sum, Rs. 6,000 would be withheld and can be used to retire the certificates of indebtedness worth Rs. 6,000 issued in 1952. This process is continued, so that the Association will be in possession of the required amount at all times. The advantage of this plan is that the member is saved from having to produce cash at a time when he may not have it and it gives him a little interest and a lump sum at the close of a period of five years. As fresh levies or allocations out of profits are being made year by year, it should not be difficult for the co-operative to repay the amount borrowed when the year comes round in which repayment is due. Another advantage of the plan, according to Digby and Gretton, is that members who give up farming are able to receive back a large part of the contribution which they have made to the capital of the co-operative. It is obvious that members who join a co-operative grow old and in twenty years' time many of them may have handed their farms over to their sons. It is better, therefore, that there should be some easy way of paying back part at least of their contribution and that the co-operative should not continue to depend for its capital on people who are no longer actively interested in its work. Mention has already been made that financial self-sufficiency should be the aim of a marketing co-operative, but this conclusion admits of one exception. When large amounts are needed for a few months or for a few weeks, it is not economic for a co-operative to provide these sums from shares or revolving capital on which interest is paid throughout the year. If a loan or an overdraft is obtained from a commercial or a co-operative bank or even from Government at reasonable rates of interest for the period required, it will be the cheapest source of temporary capital, and one which the co-operative would be well advised to make the best possible use.

(viii) Functions of a Marketing Co-operative : Assuming that a marketing co-operative has raised the necessary capital, elected a committee, has appointed the necessary staff and has put up the necessary buildings and other equipment, the next question is what it does, or how it proceeds further. The answer to this question depends a good deal upon the kind of crop it handles. If it is grain, it may be brought to the society by the farmer or may be collected by the co-operative itself. Very often, the grain received is passed on to the market or the co-operative may sell the same direct to mills or it may simply pass on to a Regional Federation of which it is a member. If there is no regional co-operative and the crop goes to a distinct export market, the marketing co-operative may have to contact private brokers or *adatyas* or wholesalers or exporters of the particular commodity. Sometimes, there may be a Marketing Board which fixes prices and the quantities of the product to be exported. The newly started co-operative would certainly derive considerable assistance in working under the guidance of such a Board. The member delivering the crop to a marketing co-operative expects to be paid something on delivery, though he is prepared to wait for final payment until the crop is sold. In order to meet such demands, the marketing co-operative must put itself in possession of fairly large sums of money. This it can do by borrowing from a central financing agency or it can ask the member to go to a central co-operative bank with its receipt for the commodity delivered on the security of which he can obtain money which keeps him going till the co-operative has sold all the produce to begin paying its members.

(ix) Methods of Handling and Paying for Farm Products : According to the Report of the Co-operative Planning Committee, there are three methods of handling and paying for farm products. followed by co-operative societies, viz., (1) paying the farmer cash on delivery of his products which are thus bought outright; (2) paying the farmer what his individual products are actually sold for, after deducting the charges made by co-operative societies, and (3) paying the farmer the net pool price, after the products in the pool to which his were added are sold. The advantages of outright purchase for cash are :—

(i) Falling in with the usual market practice;

(ii) The satisfaction of the farmer's need for immediate cash;

(iii) The elimination of the factor of uncertainty;

(iv) Meeting the competition of private traders who have powerful appeal in their cash offerings ;

(v) Increasing the society's volume of business more readily by purchase from non-members;

(vi) Better return to individual farmers for the superior quality of their products; and

(vii) Reduction in the volume of work in connection with book-keeping.

One of the disadvantages, on the other hand, is that the society assumes additional risks of price fluctuations. These fluctuations follow no regular cycle and the amount of difference cannot always be predicted. The risk is specially large when prices decline. The other disadvantages are the need for a larger working capital and the necessity for employing a higher paid managerial staff and weakening of the bond between a member and the society as soon as the price has been paid. In countries like Denmark and U.S.A. where co-operative marketing is most highly developed, the practice of outright purchases is rare and that of pooling and deferred payment common. The functions which a marketing co-operative should undertake depends upon economic possibilities of such undertaking. The failures of some co-operatives which found it difficult to resist the temptation of holding up produce in the hope of getting better price have emphasised the need for only undertaking the necessary functions. When the organization has gained sufficient experience and has accumulated sufficient reserves as well, it becomes qualified to take up new ventures. In the matter of holding up produce for a rising market there is a divergence of opinion among the authorities that have given thought to this question. The Survey Reports on the marketing of commodities like rice, and wheat etc. issued by the Directorate of Marketing and Inspection indicate that because of the price differentials at harvest and at subsequent periods,

it would be preferable to hold over the produce from the market for a rise in price. The following extracts indicate opposite views on this problem. Speaking of the less perishable products, Clark and Weld write : " The extent to which less perishable commodities which are stored in periods of abundance to be held over until periods of scarcity can be sold at a more profitable price when stored by the association is a moot question. It is held by some Advocates that when such products are "dumped " on the market soon after the harvest, they are necessarily sold at a low price because the supply is greater than the demand meaning by " demand ", the immediate demand for processing or consumption. But opponents of the plan maintain that there is a speculative demand at such times which tends on the average to raise prices to a point which gives the farmer as much as he can make by holding his products over. But whatever one's view on the advisability of holding products, if they are to be held, it is at least safe to say that the large association is likely to operate more intelligently and to obtain more favourable prices than will individuals or small local associations. The argument of those favouring such procedure is, briefly, that by studying the market to determine the best time at which to sell, and by controlling an appreciable part of the supply, such associations may intelligently regulate the flow of their products to market. This will both steady the market price and secure more satisfactory prices for the grower. Moreover, it is urged, risks can be reduced through more intelligent marketing and may be devised by means of pools. Likewise, when such a procedure is decided upon, the large association is in a better position to obtain the necessary funds with which to finance the growers while their crops are being held. " (Vide page 564 of " Marketing Agricultural Products " by Clark and Weld.).

Writing about the utility of a speculative market, Clark and Clark observe : " A speculative market is of great importance to the marketing of a seasonal crop consumed throughout the year. A large part of the grain and cotton crops, for example, is sold by growers in the fall. And if there were no speculators, the natural tendency would be for prices to drop very low at that time. Buyers would be unwilling, furthermore, to buy these crops

without taking out a larger margin than they do. There is, however, a large number of speculative buyers who purchase grain futures at this time of year. These purchasers take the other side of the hedging operations carried out by merchants and mills who purchase heavy stocks for future use and sale. If prices tend to decline more than some speculators think conditions warrant or, more positively, if they believe or hope prices will go higher, they begin to buy as a speculation. Such buying tends to check the decline, and thereby to steady the price; the purchases of speculators tend to increase prices and so to curtail present consumption, thus leaving larger supply for the future. If prices go up, those who have been holding to sell at a higher price begin to sell and the rise is checked. But if the supply is large, the action of speculators in selling or in keeping out of the market forces prices down. In this manner consumption is encouraged and a glut in the market at a later time is avoided." (Vide page 534 of "Principles of Marketing" by Clark and Clark).

In this context, the preliminary report published by the Reserve Bank of India is equally illuminating and advises caution in the matter of holding up of produce for a rising market in the following words: "It is often argued that the most important factor which prevents the farmer from obtaining the full price for his crop is the fact that owing to the lack of holding power he has to sell his produce immediately after the harvest even though the prices may then be low, and there is a widespread sentiment that if the farmer could be helped to hold up his crop till prices improved, he would be greatly benefitted. There are obviously two sides to the question. If a large portion of a crop can be held up in this way a decline in prices at harvest time might be prevented, but the produce must come on the market sooner or later. Storing means cost and risk of fall in prices and damage and these might more than counterbalance the problematical higher price that is anticipated. Without great skill and an intimate knowledge of the facts regarding the market demand for the produce, an experiment in holding up a crop might prove more harmful than beneficial and if it was attempted by the co-operative godown societies, which

would not ordinarily possess these qualifications, it might involve them in serious loss."

Coming to the methods of handling and paying for products mentioned earlier in this paragraph, it may be stated that the practice of paying what is obtained on the sale of individual farmer's products has the advantage of obtaining for him the price which the quality of the product commands in the market. The further advantage is that the society is enabled to work with a smaller capital but it suffers from the disadvantages of the cost of the service to the farmer and the labour of book-keeping being increased. The third method, viz., pooling, enables marketing according to a well-defined programme, facilitates financing, and helps a society operating on a large scale to play an important part in fixing and stabilizing prices. It has already been pointed out that the ultimate objective of a marketing society is to persuade all its members to agree to pooling of their produce, so that the society might be able to discharge the functions of grading and processing of agricultural produce. If the society is to undertake grading, it is necessary that Government should place the services of an Inspector of the Agricultural Department at its disposal free of cost.

(X) **Processing – a function of a Marketing Co-operative :** Processing is one of the important functions of marketing which is at present almost monopolized by private capitalists. Processing may take various forms such as cotton-ginning, paddy-husking, gur or sugar-making, oil-pressing, decortication of groundnut, coffee-curing etc. A well established marketing co-operative which has gained sufficient experience and built up adequate resources can very well undertake processing as a side activity, if the middlemen's profits are to be diverted to the agriculturists with the financial assistance made available to it by Government, if necessary. When a co-operative sale society is unable to put up a processing plant, separate processing societies may be formed. It is not, however, easy to organize such societies, firstly, because a fairly large amount of initial capital is required to be sunk into fixed assets such as plant, machinery buildings, godowns and other structures; secondly the promoters

must be ready to provide enough volume of business to the society; thirdly, a large body of cultivators must be prepared to pool and grade their produce before processing is undertaken, and lastly, a sufficiently large number of agriculturists growing the crop to be processed must remain loyal to the society. In order to place such societies on surer foundations, certain preliminary enquiries will have to be made by the promoters or the organizer of such a society. The following are the points on which the probe is required :—

(1) What are the economies anticipated? What additional benefit will accrue to the cultivators and how?

(2) What would be the amount of capital that is required for the additional activities and what sources are going to be tapped for the purpose? Are the promoters prepared to collect a decent amount of share capital from among themselves?

(3) If Government is prepared to provide the initial capital required, what is the exact amount that is going to be raised from the members?

(4) Are there any processing plants working in the area, what is their position in regard to the profit yield?

(5) What is the total area under the crop to be processed for the purpose of feeding the plant?

(6) In what way is the produce going to be secured and what control, if any, is proposed to be exercised over production activities?

(7) Are communications good for carrying the raw material to the factory?

(8) Is the necessary labour available and what arrangements are made to obtain expert advice?

(9) What advantages of markets, raw materials and finance are available if the processing plant is located at the place proposed? What other special facilities are available for setting up the plant at the place proposed?

(10) Draw up a budget of the concern, prpoposed to be set up, giving an estimate of revenue and expenditure under various heads.

(xi) **Method of Sale :** As far as possible, a marketing co-operative is well advised to effect the sale of produce of its members by public auction, and it is desirable to follow the closed bid tender system, if the produce to be handled is on a large scale.

(xii) **Advances against the Pledge of Produce :** A marketing co-operative may give advances to its members after keeping an adequate margin at the time the produce is delivered to it. The rate of interest, and the terms and conditions of such advances will be dependent on Circumstance in each case.

(xiii) **Integration with Credit Structure :** Liberal finance for agricultural production should be made available by credit societies and for that purpose it is necessary to link up credit with marketing. Large-sized or small credit societies would collect the produce of their members as the agent of the marketing co-operative and send it to the latter for sale. If the members fail to bring their produce, they should be penalized by reducing the amount of finance to be granted to them for production by the co-operative credit societies.

(xiv) **Erection of Godowns and Provision of Transport Facilities :** It may be desirable that a marketing society should build or hire godowns both for providing storage facilities to farmers and for stocking seeds, fertilizers and other production and consumption needs which are required for distribution to the farmers, through the credit societies or otherwise. A marketing society will have to maintain motor trucks also to provide facilities of transport for the purpose of collecting produce for sale and for distributing agricultural requirements to farmers. It need not, however, establish a warehouse, as it would be able to take advantage of the warehouses established by the State Governments.

(xv) **Export, Import and Inter-State Business :** For promoting export trade on a co-operative basis, primary market-

ing societies have to be grouped into regional federations as far as possible, in order to undertake the export of commodities locally grown on a large scale. Until such federations are organized, the Registrar of Co-operative Societies should recommend to the Union Government the names of marketing co-operatives, the commodity or commodities handled by them and the extent to which they can export the various commodities. Co-operative marketing organizations should establish direct contacts with producers' and consumers' organizations in the same or other states with a view to reducing dependence on middlemen and intermediaries. The Registrar can very well assist the societies by compiling a directory of commodities handled by marketing co-operatives in his State and broadcast them among co-operative consumers' organizations.

(xvi) **Problems of the Staff :** It is quite important for a marketing co-operative to have employees who are honest and hardworking and possessed of the necessary technical skills. This subject has already been dealt with. Suffice it to say here that there should be a paid manager who must have received special training in marketing so that he could do his work efficiently. He may be one lent by Government or by a Financing Agency in the initial stages.

(xvii) **Board of Directors :** The Board of Directors should consist of individual agriculturists, representatives of societies, and nominees of Government and the Central Financing Agency. The proportion between these representatives on the Board should be left to the discretion of the society, but due weightage should be given to the representatives of societies. The bye-laws may provide for co-option of one or two persons whose specialized knowledge in marketing would be useful to the society, but care should be taken to see that the co-opted Director is not a trader.

(xviii) **Forms of Assistance required by a Marketing Co-operative from Government or other Bodies :** If a marketing co-operative is to develop on right lines and tries to grow its full stature, it would require assistance, financial or otherwise, from Government or other bodies, as listed below :—

(1) Government should make contribution to the share capital of the society up to an amount indicated in the Rural Credit Survey Report.

(2) Establishment expenses of Supervisory and Executive staff may be borne by Government for a period of three years in the initial stages.

(3) Free services of experts in grading aned processing should be made available by Government, and Government godowns should be handed over on nominal rents.

(4) The Municipalities and the Local Boards should make available to the marketing society stalls in the markets for the sale of produce of its members.

(5) Definite quotas of wagons, refrigerated or otherwise, should be allotted to marketing co-operatives on a priority basis.

(6) Co-operative Sale Societies should enjoy priority and preference in the supply of their produce required by the military, the railways, hospitals and the Government departments.

(7) Government should utilize the agency of the marketing co-operatives for the supply and distribution of the products manufactured in their factories.

(8) State assistance in the matter of construction of godowns and warehouses should be in the form of (i) free provision of land, (ii) grant of subsidy equal to 25 per cent. of the cost of construction, (iii) grant of interest-free long-term loans equivalent to 50 per cent. of the cost of construction.

(9) If and when Government purchases foodgrains and other agricultural commodities during a period of falling prices as a measure of price support, the co-operative agency should be utilized by government for this purpose and remunerated for services rendered.

(10) A definite percentage of export quotas should be reserved for the marketing co-operatives by the Government.

(xix) **Accounts, Records and Internal Check : (A) Internal Check.** It is more important for a marketing co-operative to keep a clear and accurate record of all transactions that take place. A well-established co-operative must employ a properly qualified accountant and the requisite staff under him. The system of book-keeping in vogue would naturally vary with the size and volume of business handled but care should be taken to see that all the necessary registers and account books are kept in order to record the transactions from day to day. The books and registers that a marketing co-operative has to maintain, whether it is big or small, are listed below :—

(1) Cash Book (columnar or otherwise) for smaller societies).

(2) General Cash Book with subsidiary Cash books for different departments or sections (for bigger societies).

(3) Goods Inward Register.

(4) Stock Receipt Book and Cash Memos for Cash Receipts.

(5) Sales Register. } to be subdivided according to

(6) Purchases Register. } different commodities.

(7) Loan or Advance Ledger against the security of goods. (This is a combined form of a loan register and a loan ledger).

(8) Cash credit ledger against the security of stock.

(9) Auction Register (or a Bidding Book).

(10) Patti Book showing details of goods sold and their value and deductions made therefrom and showing the net amount due to the member. This is otherwise known as Sales Slip Book also.

(11) Deposit Ledger.

(12) Share Ledger and Share Transfer Register.

(13) Members' Register.

(14) Trade Creditors' Ledger.

(15) Godowns Register.

(16) Tender-Sheet.

(17) Marketing Panchayatdars' or Agents' Personal Ledger.

(18) General Committee Proceedings Book and Managing Committee Proceedings Book.

(19) Cash Balance Analysis Book.

(20) Investments Ledger.

(21) Deadstock Register.

(22) Register for Stationery and other Stock.

(23) General Ledger.

(B) **Internal Check.** It is not an easy task to suggest a foolproof system of internal check that would suit all concerns, irrespective of their size and strength of staff employed. Still, however, a brief outline of a system of internal check and safety measures that may be introduced in the working of a marketing co-operative is given below :—

(i) Insistence on daily writing up of cash book and other registers as soon as transactions are closed, and the cash balance should be checked daily by a responsible official who has nothing to do with the writing up of the accounts. Surprise checking of books and verification of cash balances at regular intervals may be undertaken by one of the directors who may be paid an honorarium for the purpose.

(ii) Duties and responsibilities of the various paid officials such as the Secretary, the Manager, the Managing Director, in respect of transactions relating to cash and goods should be clearly defined in the bye-laws.

(iii) Security bonds for adequate amounts should be taken from all the members of the paid staff and they should be renewed from time to time.

(iv) It should be seen by some responsible official that all the registers, ledgers and other books are written up to date, as thereby the chance of manipulating the books is minimized.

(v) A periodical verification by a responsible Director is necessary to see if the advances made against the pledge of of produce are within limits and are properly sanctioned by the Board. It should be further seen whether the margin has shrunk and whether goods have deteriorated. In the latter event, their early clearance must be insisted on. It is important that all the goods offered as security are insured for their full value with an approved insurance company.

(vi) The limits of trade credits granted to traders may be verified from time to time to see that they are not transgressed and those only on the approved list are granted such credits.

(vii) When a marketing co-operative undertakes export and import commodities or is entrusted with the distribution work on a large scale, it is necessary that a Government Inspector should be attached to the society to see (a) if the work is done as per conditions laid down in the agreement with Government and (b) that society itself is doing the work and has not transferred it to someone else.

(viii) Depreciation on Deadstock and other Articles or assets and shrinkage or shortage in stock should be verified by some responsible official from time to time before it is being allowed to be written off. Similar treatment should also be with regard to bad debts.

(ix) In order to reduce the possibilities of frauds remaining undetected for a considerable length of time, detailed audit by internal auditors every quarter should be insisted on followed by regular and punctual audits by the Government Auditors.

(13) **Conclusions :** The conclusions of this chapter may be best put in a set of words of advice to those wondering whether to start a marketing co-operative or whether one that has already started is going to fulfil their hopes in the form of do's and don'ts. (Vide pages 78 and 79 : "Co-operative Marketing for Agricultural Producers" by Digby and Gretton).

(A) (1) Keep a definite objective in view before starting a marketing co-operative and base your organization as far as possible on commodity principle.

(2) "Begin simply, bind firmly and pay particular attention to strong finance".

(3) Tie all the members by enforceable contract and be sure that your society controls enough of the commodities so that it becomes a factor to reckon with in the market.

(4) Keep in touch with your members, apprising them of your activities from time to time by such means and measures as are practicable.

(5) Select your members and the staff with care. Train the latter and pay them well.

(6) See that the duties and powers of the paid staff are properly defined and that they do not overlap.

(7) Keep always in view the principle of normal operations and normal risk.

(8) Let there be efficient finance, efficient management and economical operation as your watchwords in the conduct of business.

(9) Introduce a proper system of internal check and see that it is rigidly enforced, so that responsibility can be fixed for acts of commission and omission on the part of the staff. Get the accounts of your society audited punctually and regularly. Treat the Auditors and Inspectors as your friends from who you can learn much.

(10) Always remain alert to adopt new methods and be ready to explore new lines of business which will help your members.

(11) Link up your society with other types of co-operatives, particularly consumers societies not only in your own area but in other regions as well, as there would be many interests common between you and them.

(B) (12) Do not start a marketing co-operative until a definite economic need is established, or some improvement in the existing system of markets is required to be brought about.

(13) Let no one except the growers of a particular crop for whom the society is set up be admitted to membership. While enrolling members avoid fair-weather friends as far as possible.

(14) " Do not expect miracles in the first year. There are many things like weather, foreign markets, politics etc.' over which you have no control. Do not lose heart. "

(15) Do not seek to establish any monopoly of the commodity you handle nor try to control prices by creating artificial scarcity.

(16) Do not sell all the produce at one time nor to any one purchaser. Do not make outright purchases for an amount which exceeds your own owned resources.

(17) Do not try to operate on a large scale at the very commencement before proper experience is gained nor to operate with too small a margin of profit.

(18) Do not divide the profits up to the hilt, but conserve a part of it for meeting future contingencies.

(19) Do not grant trade credit to any one whose credit-worthiness is difficul to assess. Do not show laxity in the recovery credit granted.

(20) Do not violate sound business principles either at the time of making purchases of members' requirements or at the time of sale of their produce.

(14) Progress of Marketing Co-operatives in the Indian Union. In the following paragraphs an attempt is made to review the progress of marketing co-operatives in several States in the Indian Union at the close of the co-operative year 1954.

Part II

Statewise Review of Development of Marketing Co-operatives in the Indian Union at the end of 1953--54

1. Bombay. There were 311 co-operative marketing societies at the and of 1953-54 in Bombay, broadly classified as under :—

		No of Socys.
(1)	Bombay State Co-operative Marketing Society.	1
(2)	Cotton Sale Societies. ...	86
(3)	Fruit and Vegetables Sale Societies. ...	47
(4)	Chilly Sale Society. ...	1
(5)	Tobacco Sale Societies. ...	2
(6)	Spices and Condiment Sale Societies. ...	2
(7)	Cotton Ginning and Pressing Societies. ...	13
(8)	District and Taluka Purchase & Sale Unions and Societies. ...	179

The membership of marketing co-operatives stood at 1,44,734 individuals and 5647 societies. Their working capital rose to Rs. 4.30 crores at the close of 1954. The paid-up share capital and the reserves were Rs. 62.02 lakhs and Rs. 118.52 lakhs respectively. There was a continuous fall in the business turnover of these societies; the value of goods sold being Rs. 13.61 crores in 1953-54. Correspondingly, profits also dwindled to Rs. 6.58 lakhs. The decline in turnover of business is largely accounted for by the removal of controls on foodgrains and some essential commodities. Cultivation finance continued to be made by marketing co-operatives and loans against pledge of goods were normally made up to 60 to 70 per cent of the produce. During 1953-54 advances of all types were of the order of 3.77 crores. The progress made by various types of marketing co-operatives in the State was, however, not uniform. The single-commodity societies handling commodities like cotton, fruit and vegetables

generally did better than the rest. On 30th June 1954, the number of cotton sale societies in the State was 86 with a membership of 30,608 and a working capital of Rs. 78.25 lakhs. Their turnover of business amounted to Rs. 424.96 lakhs. Cotton sale societies in the State are of two different types, viz., the Gujerat type and the Karnatak type. The Gujerat model is also adopted by societies in Nasik and Khandesh Districts. A distinguishing feature of the Gujerat type is that the produce (cotton of a particular strain) of the members is is sold on a collective basis after pooling and ginning it jointly. Average price is paid to the cultivator at the end of the season. The surplus income, if any remaining at the end of the season, is distributed among the members after deducting ginning, insurance and other overhead charges and after adjusting the advance made to members. (1) In the Karnatak type, however, the produce of members is not pooled, but sold on an individual basis. It is only in the case of the Laxmi cotton that pooling was attempted sometime after grading it. The Karnatak model also does not undertake the processing activities. There were, besides cotton sale societies, 13 ginning and pressing societies, having a membership of 92 societies and 8832 individuals. The ginned cotton weighing 10.26 lakh maunds earned a net profit of Rs. 3.4 lakhs during 1953-54. (2) The next important group of single-commodity societies in the State comprised fruit and vegetable sale societies which have made some progress. There were 47 marketing co-operatives belonging to this category at the end of 1954 having a membership of 13,854 including 16 societies and a share capital of Rs. 6.26 lakhs. Their reserves and working capital stood at Rs. 14.88 lakhs and Rs. 38.23 lakhs respectively. During 1953-54, they sold fruits and vegetables of the value of Rs. 94.64 lakhs and earned a commission of Rs. 3 lakhs and a net profit of Rs. 0.67 lakh. Amongst these societies co-operatives handling bananas in East Khandesh and Surat Districts did considerable business. They marketed 25% of the total output of the district. The Fruit and Vegetable Societies in the Ahmedabad District marketed produce worth more than Rs. 15 lakhs, while the Potato-Growers' Association handled about 86% of the total output of potatoes in the district.

(3) **Bombay State Co-operative Marketing Society.** The Bombay State Co-operative Marketing Society was registered in 1941 and had satisfied the long-felt need for a Central Purchasing and Sale Agency in the terminal market for the agricultural producers' and consumers' societies. It had concentrated its attention from its very inception on the sale of produce of the members of affiliated societies and other members to their best advantage and on the supply of agricultural requisites. It had also established contacts with apex marketing institutions and other marketing societies outside the Bombay State. The Society had, at the close of 1954, 918 individual members and 452 societies. It had a share capital, reserve fund and working capital amounting to Rs. 1.31 lakhs, Rs. 0.42 lakhs and Rs. 6.55 lakhs respectively. The other funds amounted to Rs. 1.85 lakhs. During 1953-54 it sold bananas, coffee seeds, vegetables, fruits and fertilizers valued at Rs. 9.38 lakhs and earned a commission of Rs. 54,960; but it incurred a loss of Rs. 37,294 on its working during the year. Its accounts with Government in respect of its business in ammonium sulphate had not been properly settled and unless the position in regard thereto is carefully ascertained and matters settled, the amount of losses which it has incurred or will incur is difficult to estimate with accuracy. Though it was an apex institution for the marketing societies in the State, there was no co-ordination between the apex institution and the societies at the district level. Owing to mismanagement of its affairs, it was not working satisfactorily and its affairs have, therefore, been wound up recently.

(4) **Processing Societies at work.** The Bombay State has made considerable headway in developing processing of agricultural produce on co-operative lines, and an account of progress made is given in Part V of this Chapter.

(5) **Inter-State Trade by Marketing Co-operatives.** Inter-State trade in cotton, fruit and potato seeds was developed by a few marketing societies in the State. The subjoined table gives statistics relating to such inter-State transactions, handled by the societies mentioned below together with the value thereof.

(A) **Exports.**	Commodities handled.	State to which exported.	Value of commodities handled in lakhs.
Fruit and Vegetable Sale Societies in Surat and East khandesh Districts.	Plaintains.	U. P., Punjab, Madhya Bharat, Delhi, Rajasthan and Ajmer.	115.36
Cotton Sale Societies in Kaira District.	Cotton.	Saurashtra, U. P. and Madhya Bharat.	5.59
(B) **Imports.**			
Poona District Purchase and Sale Union.	Seed Potatoes	Himachal Pradesh,	3.83

(6) **State Assistance**. Loans and subsidies were sanctioned to co-operative societies under the Bombay Multi-purpose Societies Sale and Supply Societies (Construction of Godowns) Loan Rules, 1940. 50% of the total cost of construction of godowns was granted by way of loans, while subsidies were granted up to 25% of the total cost. The rate of interest charged on loans was 4% per annum. During 1953-54, loans and subsidies granted were Rs. 0.56 lakhs and Rs. 0.14 lakhs respectively.

2. **Uttar Pradesh**. Marketing co-operatives in U. P. can broadly be classified into two types, viz., Cane societies and others comprising ghee sale societies, fruit and vegetable societies. Cane societies continued to be in charge of the Cane Commissioner, while the rest were in charge of the Registrar of Co-operative Societies in the State. At the end of 1953-54, there were 112 cane marketing unions with a membership of about 14 lakhs Out of the total quantity of cane crushed by the sugar factories in U. P., cane marketing co-operatives alone supplied 94.7 per cent. The working capital of the cane unions was 2.94 crores, their owned funds amounted to 2.08 crores; they earned a commission of Rs. 67.97 lakhs during the same period on the quantity of cane supplied to the factories. In order to discharge their

statutory responsibility, they set apart one-third of the commission earned in favour of Development Councils for development work in factory areas. They also distributed 55,354 maunds of oil-cake, 3.19 lakh maunds of chemical fertilisers, 2.10 lakh maunds of fertiliser-mixture and 11,877 maunds of *sanai* seed for manuring. The distribution of pure and disease-resistant cane seed forms one of the major activities of development and cane marketing co-operatives distributed 31.69 lakh maunds of seed to the cane-growers.. The U. P. Co-operative Cane Unions' Federation is the apex organization of all cane unions in the State. It was started in 1949-50 with the following objects :—

(1) To undertake the bulk purchase of fertilisers and implements.

(2) To distribute the agricultural requisites on an equitable basis.

(3) To pool the resources of members and utilise the same in an integrated manner for the benefit of all. The total turnover of business of the Federation amounted to Rs. 2.70 crores.

The Pradeshik Co-operative Federation. It is the apex organisation of all the co-operatives in the State in so far as marketing and distribution activities in the State are concerned. Its main functions are the promotion of production and marketing and general co-operative development. For this purpose, district federations have been started in all the districts at the district headquarters and they are all affiliated to the apex organisation. Its subsidiary activities include the running of seed stores, sale of fertilisers, implements etc. Finance is also made available for the running of brick kilns and tube wells by the affiliated societies. As a result of the price support policy pursued by the U. P. Government, the Federation was required to undertake the marketing of gur after making purchases when the price falls below Rs. 10 per maund. Such purchases are directly made from the cultivators. This purchase policy of the Federation is intended to prevent a slump in the price of gur and consequent adverse effects on the cultivators. The Pradeshik Federation had a share capital of Rs. 11.76 lakhs and owned funds to

the extent of Rs. 95 lakhs. It made a profit of 0.29 lakh during 1953-54.

Ghee Sale Societies. The subjoined table indicates the operations of the ghee sale societies in U. P. at the end of 1953-54 :—

	Central	Primary
(1) No. of Societies.	11	560
(2) Membership.	881	18829
(3) Loans issued during the year (in lakhs)	Rs. 4.29	Rs. 7.38
(4) Value of stock sold during the year (in lakhs)	,, 1.46	,, 4.76
(5) Net Profit or Loss (in lakhs).	,, –0.12	,, +1.58

3. Madras. The bifurcation of the Madras State into Madras and Andhra States took place during 1953-54. The subjoined table indicates the position of primary marketing co-operatives in the residuary State of Madras at the close of 1953-54:—

(1) No. of Societies.	...	...	120
(2) No. of Members.	...	...	1,24,085
(3) Paid-up share capital (in lakhs).	...	...	Rs. 19.93
(4) Loans issued during the year (in lakhs).	...	...	,, 44.72
(5) Value of produce sold (in lakhs).	...	...	,, 2.0215
(6) Value of seed, manure and implements supplied to members (in lakhs)	...	...	N. A.

Marketing Co-operatives in the State generally handle all varieties of agricultural produce in their respective areas of operation. Groundnut, cotton, paddy and chilly were some of the important agricultural products sold by marketing co-operatives in the State. Other commodities that were sold in sizable quanti-

ties were arecanut, cocoanut, pepper and potatoes. The marketing co-operatives obtained short-term finance from district central co-operative banks at a rate of interest not exceeding 3 per cent, for granting loans to their members on the pledge of produce and for purchase and sale of agricultural implements, fertilisers etc. The total borrowings from the central financing agencies were Rs. 46.68 lakhs. Physical facility loans, i.e., loans for the construction of godowns and erection of processing plants were supplied by the State Government. In addition to loans, the State Government gives subsidies for the construction of godowns at the rate of 50 per cent of the cost of godowns, subject to a maximum of Rs. 7,500 in individual cases. Loan and subsidies received by marketing co-operative societies in the State were Rs. 5000 and Rs. 5700 respectively during 1953–54. Loans are granted by marketing co-operatives to their members against the pledge of produce for all purposes, so that members may be enabled to hold over produce temporarily for a better market. Loans are generally given up to 75 per cent of the value of foodgrains and up to 60 per cent in the case of commercial crops other than cotton, groundnut and arecanut. In the case of the latter three commodities loans are made up to 70 per cent of their value. Grading of produce before sale has not been undertaken on any large scale by the marketing co-operatives in the State, nor are they exclusively engaged in processing activities. A few marketing co-operatives however, undertook cotton-ginning, coffee and arecanut-curing. The total value of produce processed during 1953-54 by seven sale societies in the Districts of Malabar, Ramanathpuram, Tinnevelley and Tircuchirapalli amounted to Rs. 8.64 lakhs, and the processing charges recovered were Rs. 25,684. A few marketing societies obtained permits for the export of chillies, onions and English vegetables to Ceylon and Malaya. During 1953-54 they exported 648 tons of onions, 184 tons of chillies and vegetables worth Rs. 32,710.

Working of Controlled Credit Scheme. The scheme was in operation in 19 circles during the year. Under it rural credit societies financed cultivators for raising crops, on the condition that the crops so raised with the loans should be marketed through the neighbouring sale society. The sale society deducts

from the sale--proceeds the amount due to the credit society and remits it to the financing bank on behalf of the rural credit society concerned. Fifty marketing societies are reported to have worked it through 485 rural credit societies. In respect of commercial crops, the controlled credit scheme is reported to have worked successfully, but in the case of foodcrops, the value of produce brought to the sale societies for marketing did not correspond with the amount of loan granted. This is attributed to the fact that the cultivators either retained paddy for their home consumption or sold it away locally when prices were rising. The scheme has been a failure in case of foodcrops, though it is in operation for many years past and its failure is due to the disloyalty of members to the society and lack of effective supervision.

4. **Andhra**. The subjoined table indicates the operations of marketing co-operatives in the State during the year 1953-54.

(1)	No. of Societies.	178
(2)	No. of members (in lakhs).	1.27
(3)	Paid-up Share capital	Rs. 38.15
(4)	Loans and advances made... ... during the year (in lakhs)	,, 129.45
(5)	Value of produce sold (in lakhs) ...	,, 103.66
(6)	Value of seeds, manures and agricultural ... implements sold to members. ...	,, 62.24

The marketing co-operatives are financed by the central financing agencies out of funds obtained from the Reserve Bank of India for the marketing of crops at a concessional rate of interest. There is no apex institution in the State and there is only a District Co-operative Federation called "The West Godawari Co-operative Marketing Federation. At the end of 1954 it had a membership of 104 societies and 181 individuals. Its paid-up share capital was Rs. 49,650. It sold chemical fertilisers of the value of Rs. 1.90 lakhs, iron and steel worth Rs. 0.66 lakh. Government assistance to marketing co-operatives is

given on the same scale as is done in Madras and 22 marketing co-operatives built 27 godowns with the financial assistance made available to them by the Government.

5. **Madhya Pradesh**. In Madhya Pradesh the Regional Agricultural Associations and Multi-purpose Societies functioned as the primary marketing co-operatives, while the Madhya Pradesh Marketing Society at Nagpur is the apex organization for all marketing co-operatives in the State. The number of primary marketing co-operatives stood at 82 and their membership was 40,004 during 1953-54. They had a paid-up share capital of Rs. 12-43 lakhs and the value of goods sold was Rs. 86.48 lakhs. They issued loans to their members to the extent of Rs. 42.43 lakhs and incurred a loss of Rs. 1.22 lakhs on their working during 1953-54. The following statistices give particulars in regard to the working of the Madhya Pradesh Co-operative Marketing Society at the end of 1953-54.:—

(1) Membership :		
(a) Individuals.	... ...	6
(b) Societies.	... ...	317
(2) Paid-up Share capital (in lakhs)	...	Rs. 4.61
(3) Value of purchases (in lakhs)	...	,, 3.509
(4) Value of sales (in lakhs)	... ...	,, 68.90
(5) Loans and advances made to members (in lakhs)	... ...	,, 13.59
(6) Net Profit (in lakhs)	... ...	,, 0.30

The main activities of the marketing societies during 1953-54 were :—

(1) Procurement and distribution of fertilisers as agents to the State Government.

(2) Purchase and supply of foodgrains to Railways against contracts given to them.

(3) Purchase and export of pulses, chillies and oil-seeds outside the State.

(4) Marketing of rice, wheat and pulses with the help of affiliated co-operative associations.

(5) Running two Depots, one at Piperia and the other at Itarsi, and doing business with other Associations in respect of iron and steel.

(6) Purchase and distribution of engines and pumps; and

(7) marketing of improved varieties of cotton with the assistance of affiliated Agricultural Associations.

Under what is known as 'Cotton Pool Scheme', co-operative marketing of cotton is undertaken under the guidance of the Madhya Pradesh Co-operative Marketing Society, Nagpur. Under this scheme, the Society through the Regional Agricultural and Growers' Associations pools improved varieties of cotton brought by producers at selected market places and arranges for the sale of produce so brought by auction on a commission basis. The State Marketing Society provides finance to the Growers' Associations for making advances to the growers or agriculturists who bring their cotton to the pools. Grading of cotton is arranged to be done by the Agricultural Assistants of the Department of Agriculture. The Reserve Bank of India has granted special accommodation to the Society at the concessional rate of interest for financing the cotton pool scheme. Similar pools for the sale of foodgrains, pulses etc. have also been organized by the Society.

Government Assistance. Government assistance was given to the Society as under :—

(1) A contribution of Rs. 2.5 lakhs towards its share capital.

(2) A loan of Rs. 20 lakhs which was repaid before the end of 1954.

(3) Guarantee towards the accommodation obtained from the Reserve Bank.

(4) Free services of an Assistant Registrar to work as Secretary of the Society.

Two of the Branches of the Society and three Central Co-operative Financing Agencies in the State were licensed to work as Warehouseman under the Agricultural Warehouses Act,1947.

6. **Bihar**. Marketing co-operatives in the State consisted of canegrowers' societies and the vegetable-growers' societies and their unions. The number of primary societies of both the types stood at 7748 at the end of 1953-54. Their membership was 2.45 lakhs and they granted loans to their members to the extent of Rs. 42.72 lakhs. The total value of sales on a commission basis was Rs. 2.01 lakhs. Finance for the purchase of improved seeds and fertilisers was obtained by these societies from the central financing agencies and sugar factories. The short-term accommodation made to members during 1953-54 was of the order of Rs. 42.57 lakhs. There were 30 sugar factories in the State that purchased cane from the Unions of Cane Societies on a commission basis. The production and sale of cane is governed by a special Act called the Bihar Sugar Factories Control Act, and the maximum price of cane is fixed by the State Government. There were 66 Vegetable-growers' Societies in the State with a membership of 1837 at the end of 1953-54. They were affiliated to the Vegetable-growers' Central Union and to the Central Financing Agencies. Vegetables of the members were collected at each society's office, and the society after classifying and grading them disposes of them in the neighbouring consuming centres at the prevailing market rates. The higher grade vegetables are sent for sale to out-stations. No apex institution for either of cane or vegetable societies has been started in the State as yet. There were 66 cane marketing unions and 1 Central Vegetable-growers' Sale Union in the State.

7. **Orissa**. There were 361 marketing co-operatives of various types in the State having a total membership of 46,276 and a paid-up share capital of Rs. 6.23 lakhs. Their working capital stood at Rs. 54.51 lakhs and the value of goods purchased by them was of the order of 89.66 lakhs, and their sales amounted to Rs, 93.38 lakhs during 1953-54. The loans outstanding with members of societies amounted to Rs. 0.88 lakh at the close of 1953-54. There were two Federations in the State that under-

took marketing activities. Of these, the Ganjam District Fishermens' Co-operative Union, Ltd., was functioning as the central society for all the fishermen's societies in the district. The other Federation viz., the All Orissa Co-operative Distributing Corporation, was in a moribund condition after de-control of textile goods. The State Co-operative Marketing Society at Cuttack is the apex organization, co-ordinating the activities of all the marketing co-operatives in the State. It had a membership of 115 consisting of 26 individuals and 89 societies. The purchases and sales of the Society were Rs. 0.82 lakh and Rs. 1.15 lakhs respectively during 1953-54. The Society is running a retail store section and selling goods sent by its affiliated societies on a consignment basis. It renders technical advice to its affiliated societies for developing their activities. It has also established contracts with Sales Emporia of the West Bengal and Bombay Governments to which it supplies handloom cloth on consignment basis.

8. **Punjab.** The marketing co-operatives in the State consisted of various types as mentioned below :—

	Particulars		*No.*
(1)	Co-operative Commission Shops.	...	13
(2)	Co-operative Cotton Development and Marketing Societies. ...	...	14
(3)	Co-operative Sugarcane Societies.	...	7
(4)	Co-operative District Wholesale Societies.	...	13
(5)	Co-operative Cold Stores.	...	6
			53

The Co-operative Cotton Development and Marketing Societies pool the cotton of their members and supply it to the textile mills after converting the same into lint. The resulting cotton seeds are sold in the local markets. The district wholesale societies undertake the work of supply and sale of agricultural produce and are newcomers on the scene. The Co-operative Cold Stores are designed to provide cold storage facilities for the potato-growers in order to enable them to preserve potatoes

before sale. Two such cold stores completed their buildings and equipped them with storage machinery at the end of 1954. Marketing Co-operatives in the State were financed by the Central Co-operative Financing Agencies, while the Cold Stores were given financial accommodation by the Apex Bank. The extent of finance received by the marketing co-operatives was of the order of Rs. 40.22 lakhs during 1953-54.

9. **Hyderabad**. Marketing co-operatives handling agricultural produce comprised three types in the State, viz., (1) Taluka Agricultural Associations. (2) Sale Societies and (3) Multi-purpose Co-operatives. These societies dealt in paddy, rice, jaggery, jawar, wheat, gram, cotton-seeds etc. The following statement gives details in regard to their working and financial position at the end of 1953-54 :—

(1)	No. of Societies. ...	...		133
(2)	No. of Members (in lakhs)	...		1.42
(3)	Paid-up share capital (in lakhs)	...	Rs.	38.927
(4)	Loans issued during the year (in lakhs)	...	,,	1.2
(5)	Value of purchases (in lakhs)	...	,,	55.07
(6)	Value of sales (in lakhs) ...	...	,,	59.23
(7)	Profit or loss (in lakhs) ...	...	,,	+0.46
	...	...	,,	−2.22

The position of the T. A. C. As. was adversely affected by the shrinkage in business brought about by the decontrol of foodgrains and the deterioration in their position was further accentuated by the fact that large amounts were locked up with the Hyderabad Commercial Corporation with which their relations became strained. Their reorganization was under consideration of the State Co-operative Department. There were two Co-operative Apex Organizations in the State, viz., the Hyderabad Commercial Corporation and the Hyderabad Agricultural Credit Association. The former was the wholesale agent of the Hyderabad Government for the procurement of foodgrains, and the T. A. C. As. worked as its agents for collecting, preserving and issuing foodgrains on a commission basis. The H.

A. C. A. was organized as an apex institution for the T. A. C. As. The working of both these institutions was unsatisfactory.

10. **Himachal Pradesh.** The co-operative marketing structure in the State consisted of three tiers, viz., the Co-operative Multi-purpose Societies at the base, District and Tehsil Unions at the intermediate level and a Provincial Federation at the top. No separate marketing co-operatives as such were registered in the State. Potatoes, food-grains, and apples are the three main commodities marketed and most of the marketing operations were confined to Mahasu District. The marketing co-operatives were financed by the State Government and the Central Financing Agencies whose lendings were of the order of Rs. 16.04 lakhs during 1953-54. The rates of interest charged were 6 % and 4 % respectively. The only marketing co-operative whose name is worth mention is the Kailash Co-operative District Federation, Mahasu. Primary societies in the district are its members. It collects the entire produce of the district, viz., potatoes in the potato season and brings it to the rail-head at Simla from where it is booked for export. The total quantity of potatoes marketed was 470,026 maunds in the State.

11. **Pepsu.** At the end of 1953-54, there were in all 62 marketing co-operatives in the State. They had a membership of 1936 and a paid-up share capital of Rs. 3.00 lakhs. They sold goods worth Rs. 27.50 lakhs. The Grain-dealers' Association in the State received a setback because of decontrol of foodgrains. There was one Provincial Federation styled as "The Central Grain-Dealers Co-operative Syndicate, Ltd." which had been started with a view to facilitating the operations of its affiliated Grain-dealers' Associations. With the decontrol of foodgrains in the State, its affairs also came to a stand still.

12. **Mysore.** The following statement gives the operations of primary marketing co-operatives in the State at the end of 1953-54 :—

No. of societies.	...	...	85
No. of Members.	...	...	19,832
Paid-up Share capital (in lakhs)		...	Rs. 3.99

Working Capital (in lakhs)	...	Rs. 27.05
Value of purchases (in lakhs)	...	,, 37.20
Value of sales	...	,, 38.08

Marketing Co-operatives in the State were financed by the Mysore State Co-operative Apex Bank. The Mysore Provincial Co-operative Marketing Society had a membership of 185 individuals and 884 societies. Its paid-up share capital was Rs. 0.42 lakh and it sold produce worth Rs. 16·63 lakhs. It made a net profit of Rs. 1·10 lakhs. The main activity of the Society was the procurement and distribution of coffee seeds, and the total quantity of coffee seeds distributed was 33 tons during 1953-54. It obtained financial accommodation from the Apex Co-operative Bank to the extent of Rs. 5 lakhs.

13. Statistics relating to Marketing Co-operatives in the Indian Union. The following table gives particulars about the marketing co-operatives in the Indian Union during 1953-54 :—

	Primary Societies	Unions and Federations.	State Co-operative Marketing Societies.
(1) No. of Societies.	9240	2125	16
(2) Membership :			
(a) Individuals (in lakhs)	9.18	16.11	0.28
(b) Societies.	9.778	39.974	3,679
		(Amounts in Lakhs)	
(3) Paid-up Share Capital.	193.79	172.96	25.30
(4) Loans issued during the year.	743.61	430.61	267.13
(5) Value of Goods.			
(a) Distributed.	657.79	2475.58	271.76
(b) Marketed.	1533.89	266.24	13.68
	2191.68	2741.82	285.64

14. Concluding Observations. One phase of development of the marketing co-operatives came to an end in 1952 and

they moved into a new phase. Their working was hampered during a period of 15 years ending with 1952, by various restrictions on the movement of commodities and imposition of controls over foodgrains. With the removal of controls and ushering in of an era of free economy towards the middle of the year 1954, the societies began to function really as marketing co-operatives. The relaxation of controls was not, however, an unmixed blessing, and it brought to the fore some of the defects in the working of these societies and the difficulties they have to face in a free and competitive economy. It is only when they begin to stand on their own legs and cross the hurdles that they would be of real use to the agriculturists.

Part III

Processing Societies at Work

1. The object of processing is to make products more readily and easily usable by consumers and it is a marketing function. Marketing co-operatives undertaking processing of agricultural products reduce the number of middlemen and ultimately help the farmers in securing profits that otherwise go to the middlemen. Independent processing societies normally require a large amount of initial capital to be invested in fixed assets such as lands, buildings, godowns, plant and machinery and other equipment. Processing is also equally a complicated business that requires to be handled with great care. If a processing society is to work successfully, the cultivators who are to be its members must be prepared to provide a sufficient volume of raw material to keep the society going for a full working season, and they must also be convinced that the processing enterprise would certainly add to their income. Where these conditions are not forthcoming, it is next to impossible to start processing activity on co-operative lines, and it is because of the difficulties involved, co-operative processing has not made much headway without State-aid. It is only during recent years that the Bombay State has taken a lead in organizing processing of sugarcane on co-operative lines. The ghee-sale co-operatives in U. P. have not been much of a success and the Madras State is still experimenting with isolated cases of processing on co-operative lines.

2. **Co-operative Ginning and Pressing Societies in the Bombay and Mysore States.** There were at the close of the co-operative year 1954, 16 co-operative societies for the processing of cotton. There were two processing societies also for cotton in Karnatak started recently, but their working has not been very encouraging. In Gujerat, there were 13 co-operative Ginning and Pressing Societies of which five were in Surat District, 4 in Broach District, 3 in Baroda District and 1 in the

District of Ahmedabad. They had a membership of 8,892 individuals and 92 societies with a working capital of Rs. 5·21 lakhs. The quantity of cotton ginned by these societies was 10·26 lakh Bengal maunds. In Maharashtra the Kolhapur Shetki Sahakari Sangh has installed an oil mill at Wadgaon for the crushing of groundnut. Similarly, the Shahada Purchase and Sale Society in West Khandesh District, and the Mhasvad and Nandra Societies in East Khandesh District have also recently undertaken the ginning of cotton. A pioneering and outstanding example of co-operative processing enterprise is found in the Pravarangar Sahakari Sakhar Karkhana Ltd. at Pravaranagar, District Ahmednagar. Because of wise leadership forthcoming for the Society in the person of the veteran co-operator Prof. D. R. Gádgil and timely financial help given to it in its initial stages by the Bombay State Co-operative Bank, this Co-operative Sugar Factory has been a model for others to emulate. The subjoined table indicates the progress of the Society at the end of 1953-54 :—

No. of Members :	A Class.		511
	Sympathiser-members of whom 18 were co-operative and 5 were individuals.		23
Paid-up share capital (in lakhs)		Rs.	16.10
Reserve Fund (in lakhs)		”	2.61
Members' sugar cane in acres.			1565
Sugar cane processed in tons.			70883
Average per acre.			45.29
Percentage recovery of sugar.			11.49
No. of average working days for the Factory.			167

The Society has invested about Rs. 92.07 lakhs in machinery, plant, buildings and other assets, from its funds as well as from finance obtained from the Industrial Finance Corporation of India and the Bombay State Co-operative Bank. The quality of sugar produced is of 28 D type which is considered to be of a superior quality. In addition to the economic activities, the Society is also engaged in other welfare activities for the benefit of its members and its employees.

3. Following the example of the Co-operative Sugar Factory at Pravaranagar, 13 other co-operative sugar factories have come into existence in different districts in the Bombay State and their total number thus stood at 14 at the end of the co-operative year 1956. The subjoined table gives the relevant statistics of these factories

No. of Factories	...	14
Membership :		
A—Producers	...	13,287
B— Non-Producers	...	223
C— Co-operative Societies	...	181
Paid-up share capital (in lakhs)		
(a) Government contribution		139.99
(b) Members' contribution		162.44
Statutory Reserve and Other Funds		40.58
Deposits		27.89
Borrowings (in lakhs)		
(a) Industrial Finance Corporation		52.25
(b) Central Financing Agency.		141.93
Working Capital (in lakhs)		565.17
Capital sunk in fixed assets etc. (in lakhs)		
(a) Land and Buildings.		48.66
(b) Plant, Machinery and Spare parts.		263.12
(c) Miscellaneous expenditure		7.45
		(in lakhs)
Area under cane, planned by the Factory		47.906
Area under cane planned by the members		35.140

Part IV

Integrated Scheme of Agricultural Credit to Creditworthy Borrowers in the Bombay State.

Recommendations of the Crop Loan Evaluation Committee.

(A) The chairman of the Bombay State Co-operative Bank appointed on 28th August 1956 a Crop Loan Evaluation Committee under the chairmanship of Prof. D. G. Karve, consisting of eminent economists and veteran co-operators like Prof. D. R. Gadgil, Shri V. P. Varde and Shri G. M. Laud, to evaluate the working of the Crop Loan system in operation in the area of the Bank with a view to extending its application to the whole of the State and to advise the Board among other things, on matters of policy regarding agricultural and marketing credits.

The Committee has now furnished a valuable report containing many useful recommendations, a resume of most important of which is given in the paragraphs that follow :—

(1) **Coverage.** The present position is that in several districts, smallholders and tenants are excluded from the membership of societies. In areas financed by the apex Bank smallholders are being admitted, but in several villages of Ratnagri and Thana Districts tenants are not admitted and, even if admitted, they are not financed or financed fully. Admission is refused on untenable grounds and though the position in this respect was recently improved, owing to an amendment of Co-operative Societies Rules providing appeal against refusal to the federal organization, the Committee feels that a second appeal should be to the Chairman of the Apex Bank as a final referee.

(2) Where certain members of a co-operative society in a village are refused finance owing to factious spirit, a second society should not be started for such members but such excluded members should be financed by the Central Financing Agency.

If the central financing agency is responsible for causing their exclusion, the Apex Bank must take due interest.

(3) Though the influence exercised by unsocial elements quantitatively is of a limited nature, there is the risk of their getting control over co-operative institutions. These must effectively be guarded against. Directors on the Board of Management should automatically cease to be as such as soon they become defaulters.

(4) Once a case exists for drastic action against a society, the procedure for temporary administration pending reorganization should be speedy and efficient to prevent further harm being done.

(5) When the management of a society has reached such a stage that suspension of its credit by the C. F. A. is justified, the Co-operative Department should straightaway proceed to appoint an Interim Administrator enjoying all the powers of the Board pending a regular enquiry into its affairs. The power of appointing an Administrator should vest in the Assistant Registrar and the incumbent should be drawn from amongst the officers of the C. F. A.s.

II. Adequacy of Finance.

(a) In order to reduce dependence of the borrower on outside sources of finance and to make the crop loan system efficient, adequate finance needed for good cultivation should be made. Inadequate finance is due to inadequate appreciation of the implications of crop loan system or excessive caution or both. In order to evoke more enterprise from farmers some State action in regard to advice in improved methods of cultivation and supply of seeds and fertilizers is necessary. The Committee records the fact that in areas like Kolhapur and Shrirampur where commercial crops are grown, adequate and prompt finance is made. In other areas where intensive paddy cultivation is sponsored by Government, full-scale finance at the rate of Rs. 125-150 per acre is made available Some of the District Central Banks have introduced full crop loan system. In other areas, adequate finance is not made leading to inefficient production and unsatisfactory working of societies.

(b) Though under the B. A. D. R. Act all items of cultivation expenses are included, the amount of crop loan per acre is fixed

according to prevailing ideas of the borrower's repaying capacity in each district and cultivation needs tend to be neglected. The prevailing agency to determine the scale is the Field-workers' Conference which is not always held in time and the discussions there-at become formal and often are reduced to a tug-of-war between C. F. A.s and borrowing societies. The conference is not attended by the Agricultural Officer and the quality of the results reached, therefore, becomes poor. If the conference is to be a real partnership between the expert, the co-operative financier and the farmer, the Agricultural Departmental officers should take active interest with a view to determine the pattern of cultivation and its cost in consultation with the representatives of farmers

(c) Basing current year's crop finance on the volume of previous year's sales has no justification. Condition of sale of produce through a co-operative sale society should be strictly enforced. More than adequate scale of crop finance to borrowers selling their crop through a co-operative agency may be permitted either for intensive cultivation or for a provident purpose. Cash outlay needed for labour, material requisites and other cultivation expenses should come under crop finance. Similarly, maintenance expenses also should be included in it. A size of farming unit should be worked out in each area for which full estimated production expenditure should be permitted as crop loan limit. For farmers cultivating larger areas, proportionately less credit per acre should be allowed. The principle of no more and no less needed in each case should be the recognized practice of crop finance

III. Procedure. The application for crop loan should include the following particulars :—

(i) details of family and holding;

(ii) nature of cultivation and area under different crops —actual and proposed;

(iii) outstanding debt and other borrowings and charges created on the property;

(iv) extent of produce marketed through co-operative agency and land revenue paid on such holding.

On receipt of the application the Secretary should scrutinize it to make it complete and the Managing Committee should

sanction adequate loan limit justifiable in each case. In case of rejection or substantial reduction, reasons should be recorded. A normal credit statement based on the loan application should be prepared and should be accorded the status of an authoritative and important credit document. Supervising Unions as they exist at present have ceased to function either for scrutiny of loans or for their recovery, as they have come to mean action by departmental staff placed at their disposal and they are left out of the scrutiny in several areas and their scrutiny also has become formal. In order to ensure more intimate contact between the representatives of societies and of the Central Financing Agencies, the C. F. A.s should set up Branch Committees at their Branches. The Branch Committee should, in addition to tendering advice, initiate action and take decisions.

The N. C. Statement should be received by the appropriate branch of the C. F. A. where it should be disposed of or dealt with on the lines suggested below :—

(i) Loan limits of all societies classed A or B at the audit should be disposed of by the Branch Committee and reported to the Head Office for confirmation, which should take special action wherever needed.

(ii) Normal credit statements of C or D class societies, cases reserved by Branch Committees for scrutiny or by the Bank Inspector and cases of loans in excess of ordinary crop loan limits and all cases (requiring specially higher amounts of finance) should be sent to the Head Office of the C. F. A. for sanction with the recommendations of the Branch Committee.

Normal credit statements should be scrutinized by the Inspecting staff and Central Financing Agency should further verify the same wherever needed. Thus the time taken in all these stages is, in the opinion of the Committee, time well spent and in order to avoid delay the process should be started early. Ordinarily no more than a month need elapse between despatch of a society's demand and its sanction by the Branch Committee in case of A or B class societies. In other cases two months time in all would be enough. Any member aggrieved by a reduction in the loan asked for is entitled to appeal to the Branch Committee against the decision of his society and in special

cases to the Board of the Head Office itself from the Branch Committee

The C. L. E. Committee recommends that both the Apex Bank and the Co-operative Banks' Association should keep themselves informed of the actual operations of the Crop Loan system. In course of time they should propose and issue a Manual of Crop Loan Administration suitable for operation in all areas of the State

IV. Disbursement. As an essential supplement to the Crop Loan system, supplies of agricultural requisites and other requirements and sale of produce of the farmer should be effected through the co-operative agency. Crop loans should not include loans for processing activities which should be financed by marketing co-operatives. Multi-purpose societies should not undertake marketing finance. Loans under the Crop Loan system should reach the farmer in the shape of production requisites as far as possible. Cash loans, reduced to the minimum, should be issued in instalments, one for preparatory tillage credit for new season cultivation expenses and the last at the time of harvesting. Large growers should draw out of the crop loan more funds in the form of essential supplies.

The disbursement of loan should be by cheques and to popularize the use of cheques on a much larger scale than at present, more branches should be opened.

V. Utilization. To watch over the proper use or utilization of the loans is the primary responsibility of the members, Managing Committee and Secretary of the Society. A well-qualified and well-paid secretary is a vital factor to ensure efficient operation of the crop loan system. In addition to their Inspectorial staff the C. F. A.s should appoint Field-men drawn from the rural areas in order to carry out specific and sample checks as regards the conditions and needs of cultivation. In underdeveloped areas, C. F. A.s should be given special subsidies to meet a part of their expenses on this staff. Field-men should undergo training in agricultural schools.

VI. Repayment and Recovery. Repayment of loans made for each crop should come from the outturn of that crop unless the failure of an earlier crop has to be compensated by the proceeds of a later one. Prompt and adequate finance ensures

recovery and all the means of legal recovery open to the State should be available to co-operatives as they work in partnership with the State.

The C. L. E. Committee endorses the recommendations of the Laud Committee (paras 175 to 198 of their Report) with regard to making first charge on crops effective by making alienation of crops without the previous consent of the society punishable under the law. Similarly, the State Government is urged to enact legislation on the lines indicated in Chapter X para 29 of the Scond Five-Year Plan. In several areas the Committee has found that recovery-mindedness is lacking. In the opinion of the Committee, there should be some one on the Managing Committee of a society to remind all members of their respective obligations at the appropriate time and to follow the movement of their produce if need be. The position of unauthorized overdues should be reviewed by each society at the end of the recovery season. Extensions should be granted in deserving cases. All unauthorized arrears should be presented to the Assistant Registrar under Section 59 (B) who should take action as a matter of routine as action under Section 59 (B) of the Co-operative Societies Act is a normal part of the integrated system of Co-operative Finance. In order to prevent defaulters from endangering the utility of the co-operative, Revenue authorities should effect timely recoveries of arrears of crop loans in respect of which certificates under Section 59 (B) are issued by the Assistant Registrar, Co-operative Societies. It is only when such normal procedure for recovery is in operation, regular supply of credit to all bonafide members can be continued and its flow should not cease to members in good standing. When the overdues of a society reach a point when the Central Financing Agency is inclined to refuse credit to the Society it would be an obvious case in which the Department should step in and appoint an administrator. With an administrator in the saddle the legitimate demands of the bonafide and punctual repayers could be met by earmarked loans from the C. F. A. Rules for regulating extension of the periods of loans should be compiled by the Co-operative Banks' Association and communicated to all societies. The vicissitudes caused by bad seasons could be met by appropriate financial procedure. Arrears of crop loans should be

treated as intermediate-term loans and spread over two to three years.

(B) Marketing & Processing -- In some places marketing co-operatives are making production loans. This is fundamentally an unsatisfactory position. The problem of cotton sale societies (especially in Gujarat) is not that of stopping them from making crop finance but of developing co-operative multi-purpose societies that attend to all needs of the farmers on the condition that they sell their produce through the co-operative sale societies. The comparatively disappointing results of purchase and sale societies are due to institutional and personnel factors and limitations on co-operative marketing would disappear when full production finance is made available by co-operative societies. Marketing Co-operatives will have all the business they care for provided they improve their efficiency and modify their procedure. They should build up relations of mutual understanding of difficulties and interest with the primary societies. Purchase of members' produce by a marketing co-operative is not in the opinion of the committee a normal accompaniment to their activities; credit on anticipated price and later adjustments out of pooled price of the season can with advantage be had by the members of the societies. The C. F. A.s are advised to take active interest in promoting marketing co-operatives as co-operative marketing is of vital importance for the success of the crop loan system. In the initial stages C. F. A.s should run an Adat shop as a temporary measure. As a rule marketing co-operatives should be composed of society members only, individual membership being treated as exceptional. Individual members should have no major voice in the affairs of a society and should also be debarred from transacting any but their own legitimate business as consumers and producers; cultivators should be encouraged to pool their produce for joint sales through the marketing society and so long as they continue to sell their produce directly through a marketing society they should be recognized as nominal members of the marketing co-operative. All primary societies should become members of the marketing co-operatives in order to make the latter independent of individual capital. Revolving funds should be introduced to augment the owned resources of marketing co-operatives; marketing societies

help in the recovery of dues from members of affiliated societies by the sale of their produce and a separate society-wise account of sales of the produce of members should be kept.

II. Processing.— If co-operative marketing is to be carried out to economic purpose and if it is to serve the needs of the consumers and those of the producers, processing of agricultural produce must first be co-operativised. Especially in regard to paddy and groundnut the policy of the Bombay Government has proved unfriendly to the setting up of rice and oil mills. Co-operatives should either be issued special licences or existing plants acquired for their use as suggested by the Rural Credit Survey Committee. Both the Co-operative Department and the State Co-operative Bank should initiate action over the whole field of agricultural production instead of resting satisfied with the processing of one or two crops.

(C) Central Financing Agencies—Until a complete co-operative coverage is secured C. F. A.s should continue to finance individuals in the following cases :

(a) Co-operatively undeveloped areas ;

(b) Areas of stagnant societies ;

(c) Areas where legitimate needs of borrowers are not met owing to some deadlock ;

(d) Areas where the amount involved is so large that it is beyond the capacity of local individual society.

Branches should be opened in all taluka places or in other important areas where sufficient business could be had. Mandi areas should be served by Central Co-operative Financing Agencies. Each branch should have a Branch Committee consisting mainly of representatives of societies; compulsory contribution by a member to the share capital of the society should not exceed 20 % of his borrowings and this figure should be reached by an initial contribution of 10% and two further instalments of 5% each. In the case of a new society or where the membership has largely increased in order to enable small cultivators to take part in a progressive pattern of cultivation, the requirement that borrowings should not exceed 8 times the share capital and reserve fund should be relaxed up to 10 or 12 times and Government should contribute towards share capital if necessary. Affiliated societies should normally hold 10 % of their borrowings in

shares of the Central Financing Agencies and bye-laws of C. F. A.s should be suitably amended wherever necessary. At all levels of the federated structure of co-operative finance it should be strengthened by an adequate share base held jointly by constituents in proportion to the benefits they receive.

(b) Interest Rates—It should be seen that the charge levied on the ultimate borrower for service rendered by the co-operative agency at different levels is not disproportionate. C. F. A.s and their affiliates should do more business successfully so as to enable them to distribute their expense ratio on a much larger turnover. Except in initial stages of effort or special areas no subsidy is necessary. Central Financing Agencies should within certain limits set to their utility in social organisation draw to themselves a larger share of institutional and individual funds. In almost all districts there are stagnant areas where prospects of expansion of co-operative business are so slender as not to pay for costs of efficient management of central financing agencies there. Such cases should be studied jointly by Government and the State Co-operative Bank and adequate means of meeting extra costs of good management be supplied. For performing the multifarious duties connected with crop finance and for providing supervision and inspection, C. F. A.s should appoint a sufficient number of trained Inspectors and Field-men. The Bank Inspector should undertake financial inspection and the Field Inspector should carry out physical check up of crops and supervision over production at certain stages and watch over marketing of produce through sale societies. The optimum number of societies in charge of an inspector in areas where cash crops or fruits are grown should not ordinarily exceed 20 and in dry areas not more than 30. In areas where large-sized societies exist it is the number of villages covered rather than the number of societies that should be the criterion. The Co-operative Department should play a more useful role in order to strengthen the movement instead of contenting itself with issuing directives based on authority. Field Officers of the Department should be equipped with special knowledge so as to influence the action of societies for their betterment. As it is a part of public policy not to raise the cost of credit to the ultimate borrower and to strengthen the administrative structure of both the Co-operative

Department and the Co-operative institutions it is in public interest to make grants to selected institutions to meet high administrative charges over a period of years to make the crop loan system a success.

(D) Staff and Training—A district cadre of society-secretaries should be formed and administered by a special committee working under the auspices of the Central Financing Agency and it should be composed of representatives of the Co-operative Board and of the societies. All the societies in the district should make a contribution of upto 2 % of their working capital towards the total expenses of the cadre. In order to meet the shortfall in income Government should make a contribution so as to cover the deficit. Similarly a Statewise cadre of Managers of C. F. A.s should be formed and it should be operated by a committee working in co-operation with the Bank. The committee should be composed of the Chairman of the State Bank as its Chairman, other members being the Registrar, Co-operative Societies, and representatives of C. F. A.s and the State Co-operative Bank should do Secretariat workt. The Senior Inspecting staff of C. F. A.s should also be listed on a statewise basis and made transferable to posts outside their own district with the consent of their employers. If co-operative activity is to be successful competent professional services with adequate salaries and proper qualifications should be provided. Specially handicapped C. F. A.s should be given a subsidy to enable them to run efficiently. Making a loss on their working should not be stipulated as a condition. C. F. A.s and their affiliates should admit only trained staff and short refresher courses should be organized for staff at all levels.

(E) Intermediate Term. Loans—Intermediate term loans have a direct bearing on production processes. If the crop programme as a whole is to be suitably devised for each area the constituent items of crop loans, short as well as medium term should be provided. The system of obtaining landed security for intermediate term loans has to be continued and the whole question of providing intermediate term loans requires re-examination. The maximum limit for the societies for the intermediate term loans should be fixed at 1/6th of the total value of assets

of members of the society declared under Section 24 (A-A) of the B.C.s per excluding plough cattle.

(F) Tagai—As a rule and except in special cases no tagai should be issued for crop loan purposes or for development. Tagai should be resorted to for the purpose of relief of distress and for rehabilitation through co-operatives only.

(G) Backward Areas—The problem of credit to cultivators in backward areas should be treated as a part of their overall development and rehabilitation. For the latter purpose organization of co-operatives is important and the co-operatives must receive administrative subsidy and other help. Where grain depots are a part of tribal economy they should be left to be handled by an administrative department rather than by a credit institution.

(H) Audit and Departmental Action—For its usefulness Departmental audit should be punctual and its results quickly available. In order to enhance the educative effects of audit, the auditor should make special suggestions for improvement. In case of audit reports of C and D class societies they should be simultaneously posted to the societies and the C. F. A.s. Owing to some organizational difficulties of the Co-operative Department inordinate delays occur at present in taking action at almost all the stages of working of Co-operative societies: such delays should be reduced and expeditious action should be taken; while liaison exists between co-operative workers and officers at higher stages it is not so at other levels. At the district level there should be a channel of communication between departmental officers and co-operative workers.

CHAPTER XIV

Role of the Reserve Bank of India in the Scheme of Agricultural Finance in India

Ever since the establishment of the Reserve Bank of India in 1934, its exact role as a supplier of rural fianance has been unfortunately a matter of controversy. As the Central Bank of the country, the Reserve Bank is required to be in closer touch with the agencies providing rural credit. The Bank has a special Agricultural Credit Department charged with the duties of studying agricultural credit and making itself available for consultation and advice to Central and State Banks and other organizations and of co-ordinating the Bank's agricultural credit operations and its relations with the State Co-operative Banks and other credit organizations. The services of the Department have been during recent years increasingly availed of by the Registrars of Co-operative Societies, co-operative institutions and Central and State Governments. In pursuance of the policy of encouraging the development of co-operative finance, the Bank, in its preliminary and statutory reports, made valuable recommendations with a view to improving the methods of co-operative banks and in a circular issued in 1938, it laid down the procedure to be followed by Co-operative Banks which sought financial aid from the Bank. The Bank also decided to restrict such financial accommodation to only approved State Co-operative Banks, which fulfilled certain conditions, the most important of which was the maintenance with the Bank of a minimum interest-free cash balance of $2\frac{1}{2}\%$ of demand and 1% of their time liabilities. In return, the approved Banks were given certain facilities, the most important of which was the recognition of such Banks or their Branches for the purpose of transfer of free remittances. The Bank also assured finance for agricultural operations or marketing of crops against time bills maturing within nine months, and bearing two or more singatures, one of which was required to be that of a State Co-operative Bank. In a further circular issued in June 1939, the Bank explained

the principles of sound banking which Co-operative Banks were advised to follow. The Bank further issued a set of conditions for placing Co-operative Banks on the approved list for the purpose of making financial accommodation under Section 17 (2) (b) and (4) (a), (c), (d) of the Reserve Bank of India Act. One of the conditions that was insisted on was the maintenance of cash balances referred to above. Thus these restrictive conditions prevented many of the co-operative banks from availing themselves of the facilities offered. In 1942, the Bank offered to grant financial accommodation against bills and pro-notes for marketing of crops at a concesstional rate of 1% below the Bank rate, which was at that time 3%, provided the benefit was passed on to agriculturists. Here also beause of this restrictive condition, no co-operative bank except one took advantage of the concession. In order to encourage borrowings from the Bank, it extended the Scheme of Rebate to cover seasonal agricultural operations. In 1946, the Bank modified the conditions for financial accommodation and the concessional rate charged was brought down to 1½%. The conditions were further relaxed in 1948 in order to encourage borrowings by approved Co-operative Banks under Sub-Sections 2 (b) and 4 (d) of Section 17 of the Reserve Bank of India Act. But only a few State Co-operative Banks in Bombay, Madras, Madhya Pradesh and Orissa availed themselves of the facilities; the amount of concessional finance went up to Rs. 2.70 crores—an amount far too insignificant looking to the credit requirements of the Co-operative Movement. The Bank is permitted to make available through Apex Institutions, clean or unsecured advances to the Co-operative Movement for financing agricultural operations or the marketing of crops under Section 17 (2) (b) and Section 4 (c) and secured advances against Government Securities and Land Mortgage Bank Debentures under Section 17 (4) (a). Provision in Section 17 (4) (d) which refers to advances against documents of title to goods has remained a dead letter owing to the absence of licensed warehouses in the country. Within the scope of the three sub-sections of Section 17 of the Reserve Bank of India Act, the Bank's lending policies have been considerably liberalized, particularly after 1947, and onwards, enabling the co-operative movement to take advantage

of the facilities offered by the Bank, with the result that outstandings of advances against Co-operative State Banks increased to 9 crores on 15th February 1952. Out of this amount of finance, it was only two Co-operative Banks in the two States of Bombay and Madras that were in receipt of 8.25 crores on the strength of their own financial resources. The two good signatures were those of the Central Co-operative Banks and the apex institutions. In the case of Banks in other States like Madhya Pradesh, Orissa and West Bengal, accommodation could be made only on the strength of the guarantee of the State Governments concerned, as the Central Financing Agencies there had not come up to the standards obtaining in Bombay and Madras. After the achievement of Indian Independence in August 1947, certain changes have taken place in regard to the relation of the Reserve Bank of India with the Agricultural Credit and Co-operative Movement which are dealt with below :—

(I) Short-term & Medium-Term Credit.

Amendments to the Reserve Bank of India Act. Two important amendments were passed in 1951 one of which related to Section 17 (2) (a) of the Reserve Bank of India Act, which runs as under :—

(i) " The purchase, sale and rediscount of bills of exchange and pro-notes, drawn on and payable in India, arising out of bonafide commercial or trade transactions bearing two or more good signatures, one of which shall be that of the State Co-operative Bank or a Scheduled Bank and maturing within ninety days from the date of such purchase or rediscount exclusive of days of grace. "

This Section, which was formerly applicable to Scheduled Banks only, was made applicable to Co-operative Banks.

(ii) The second amendment related to the period of accommodation made available under Section 17 (2) (b). The period which was nine months before was raised to fifteen months in terms of the amendment. In practice, the actual period for which advance is made has been ordinarily restricted to twelve months only.

ing five years from the date of making such loan or advance, against such securities as may be specified in this behalf by the Bank :

Provided that such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest by the State Government;

(c) the making to Central Land Mortgage Banks of loans and advances repayable on the expiry of fixed periods not exceeding twenty years from the date of making such loans or advances :

Provided that such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest by the State Government;

(d) the purchase of debentures of Central Land Mortgage Banks :

Provided that such debentures are fully guaranteed as to the repayment of the principal and payment of interest by the State Government.

Explanation : For the purposes of this Section, a Central Land Mortgage Bank includes an institution engaged in the grant for loans on the mortgage of agricultural land and declared as such by the State Government in this behalf.

46B. (1) The Bank shall establish and maintaina Fund to be known as the National Agricultural Credit (Stabilisation) Fund to which shall be credited such sums of money as the Bank may contribute every year :

Provided that the annual contribution during each of the five years commencing with the year ending on the 30th day of June 1956, shall not be less than one crore of rupees :

Provided further that the Central Government may, if the circumstances so require, authorise the Bank to increase or reduce the amount of its annual contribution in any year.

(2) The amount in the said Fund shall be applied by the Bank only to the making to State Co-operative Banks of

loans and advances repayable on the expiry of fixed periods not being less than fifteen months and not exceeding five years from the date of making such loans or advances and on such terms and conditions as may be specified in this behalf by the bank :

Provided that no such loans or advances shall be made—

(a) except for the purpose of enabling the State Co-operative Banks to pay any dues in respect of bills of exchange and promissory notes purchased or rediscounted by the Bank under clause (2) of Section 17 or loans and advances made to them by the Bank under clause (4) of section 17, and unless, in the opinion of the Bank, the State Co-operative Banks are unable to pay such dues in time owing to drought, famine or other natural calamities; and

(b) unless such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest by the State Government".

II Procedural Reforms :

Liberalization of the Procedure for the Grant of Loans and Advances : Certain important changes were introduced in the procedure followed by the Reserve Bank in respect of accommodation to State Co-operative Banks in conformity with the recommendations of the Informal Conference. According to the revised procedure which is now in force, the stipulation previously made that all loans and advances should be repaid by a fixed date, viz., 30th September, each year, has been given up and each drawal is treated as a separate loan, and runs for the full period from the date of drawal. The credit limit fixed is related to the amount outstanding against any bank, on any day, during the relevant year and not the limit of the total borrowings of the bank during the year. In effect, the limits can now be operated upon as a kind of cash credit account. This is a great improvement over the previous position because in the past limits once utilized could not be reutilized after repayment even within the year to which the sanction related, without a fresh approach to the Reserve Bank. The previous procedure caused a certain amount of difficulty to co-operative banks, and consequently the

Bank decided to allow all loans taken by the co-operative banks to run for their full periods (12 months), though the total outstandings at any time should not exceed the credit fixed for any year.

(b) The concessional rate of interest at which the accommodation is made available, has continued to be $1\frac{1}{2}$ per cent. even after the bank rate was raised from 3 to $3\frac{1}{2}$ per cent. in November 1951.

(c) **Relaxation of Conditions regarding 'C' class Societies :** Formerly the position was that the accommodation made by the Reserve Bank could be used by the Apex Banks to finance only 'A' and 'B' class societies. But owing to the method of classification followed in some States which permitted not only qualitative or quantitative estimates also, some really good or average institutions had to be placed under Class 'C' on technical grounds. The Bank decided, therefore, that in cases where the Registrar was satisfied with the financial soundness of any 'C' Class institution, he might make recommendation accordingly when the Bank would grant accommodation to such an institution also. When the States adopt uniform standards of audit classification on the lines recommended by the Bank and approved by the Registrar, the difficulty now experienced would tend to disappear.

(d) **Standardization of Data to be supplied :** In order that the credit limits be readily and promptly fixed in the case of co-operative institutions, the Agricultural Credit Department of the Reserve Bank of India has indicated the items on which the applicant banks are required to furnish data; when such applications are received by the Bank with the recommendations of the Registrars as well as those of apex banks, they are disposed of without delay, the period taken being a week, if all the requisite details of information are forthcoming.

(e) **Liberalization of Remittance Transfer Facilities :** The Reserve Bank of India has formulated a scheme of extension of remittance facilities to State Co-operative Banks removing certain restrictions operative in the past. These facilities are available to State Co-operative Banks that have joined the

Scheme. The restrictive conditions that are waived or removed are given below :—

(1) The condition regarding the maintenance of an account with an Agency of the Reserve Bank of India.

(2) The requirement that the remittances between offices of the Reserve Bank should be in multiples of Rs. 10,000. Remittances can at present be made in multiples of Rs. 1,000 subject to a minimum of Rs. 10,000.

The reduced rates of remittances now in vogue are as under :—

up to Rs. 5,000.........at 1/32 per cent. (minimum Rs. 1-0-0) for Co-operative Banks and Societies minimum As. 4.

Over Rs. 5,000.........at 1/64 per cent. (minimum Re. 1-9-0). In the case of State Co-operative Banks, joining the Scheme of the Reserve Bank referred to above, the scope of facilities for remittances has been enlarged, as a result of which they would be entitled to remit money by a draft mail or telegraphic transfer through the offices, branches or agencies of the Reserve Bank of India as follows :—

(a) An amount of Rs. 10,000 (minimum) or the multiples of Rs. 1,000 in excess thereof between the accounts maintained by State Co-operative Banks at the offices and branches of the Reserve Bank of India, free of charge; this facility being available only between the State Co-operative Banks joining the Scheme.

(b) Once a week an amount of Rs. 5,000 or a multiple thereof from any place at which there is an agency of the Reserve Bank of India, to any account which it maintains with it, such remittances being permitted to each of its offices, branches, sub-offices and pay-offices, free of charge.

(c) Other remittances to an account which it maintains with the Reserve Bank of India from any place at which there is an agency of the Reserve Bank, at 1/64 per cent subject to a minimum of Re. 1.

For the purpose of the above concession, the Reserve Bank of India will treat the Central Co-operative Banks affiliated to State Co-operative Banks as Branches of the latter. Moreover, scheduled banks and such co-operative banks as maintain accounts with the Reserve Bank of India are now entitled to transfer funds from the Branches of the State Bank of India to any account with the Reserve Bank of India, whether or not they maintain accounts with the State Bank of India, or have offices at places from where remittances are desired. It may be added that recently the Bank has also decided that urban co-operative banks affiliated to State Co-operative Banks satisfying certain conditions stipulated by the Reserve Bank of India should be treated as Branches of the State Co-operative Banks for the purpose of remittance facilities.

(3) The restriction that remittances should be to the principal account as also the condition regarding the maintenance of an office or branch of a co-operative bank or a society at the place at which the agency of the Reserve Bank is situated. With the removal of the restriction, therefore, remittances can now be made by an office or branch of a co-operative bank from any place where the Reserve Bank has an agency to any account which it maintains with the Reserve Bank.

(4) The condition that remittances should be only to the principal account is removed.

(f) Inclusion of Part 'B' and Part 'C' States within the Scope of Section 17 of the Reserve Bank of India Act.

Prior to the merger, the Co-operative Movement in Indian States could not be helped by the Bank, as they fell outside the scope of the Reserve Bank of India Act. Now that they have been brought under the unified control of the Central Government, 7 Part 'B' and 7 Part 'C' States have been placed on a par with the former Indian Provinces, in terms of the concessions in 1951. The Officers of the Reserve Bank of India tour these States to formulate concrete proposals regarding the reorienta-

tion of the Co-operative Movement in the States visited, so as to bring the co-operative movement to the level of well-developed States like Bombay and Madras. This is then followed up by discussion between the States officials and Officers of the Reserve Bank of India as to how best the recommendations made by the Research Officers visiting the States could be implemented. As the reorganization proceeds apace, there will be corresponding increase in the extent of financial accommodation made available by the Reserve Bank. In many cases, the purpose in making the visits was to draw up a Plan of Development for a particular State visited. An essential part of the Plan was the creation of a State Co-operative Bank (through which alone the Reserve Bank could provide finance to the co-operative credit system) in states where one did not exist before. State Co-operative Banks were, therefore, set up under this programme in the following States :—

(1) Saurashtra; (2) Rajasthan; (3) Travancore-Cochin; (4) Pepsu; (5) Madhya Bharat and (6) Himachal Pradesh.

In a number of States, State Co-operative Banks were already in existence. In case of some of these, considerable reorganization was recommended by the Reserve Bank, and progress on the lines indicated has been made in various States such as Hyderabad, Mysore, Punjab and West Bengal. It may be stated that the plans formulated do not stop with the creation or reorganization of State Co-operative Banks, but they broadly cover the entire co-operative credit structure including proposals for rationalization of Central Financing Agencies and the establishment of a proper network of primary credit societies, as they are basic to the Co-operative Movement.

III. Long-Term Finance :

From 1948, the Reserve Bank started contributing to the debentures of Central Land Mortgage Banks which were guaranteed as to their principal and interest by the State Governments concerned up to 10 per cent of the issue. Since 1950, however, the Bank started subscribing up to 20% of the debentures. In Decemeber 1953, another scheme was evolved in terms of which the Reserve

Bank of India and the Government of India (the latter by arrangement with the State Governments concerned) jointly agreed to take up 40 per cent of the debentures of any series issued by land mortgage banks or the un-subscribed balance (excluding the subscriptions of the Government and the Reserve Bank of India) whichever was smaller. Half the purchase thus made was to be on Government account (i.e., maximum 20% and the other half on the Reserve Bank account (i. e. maximum 20%). The Central Land Mortgage Banks availing of this facility would, however, be required to agree to dispense loans for productive purposes within a year of the joint subscription aggregating not less than half of the amount jointly subscribed to.

In addition, the Reserve Bank has extended to State Co-operative Banks the facility of advances against debentures of land mortgage banks under Section 17 (4) (a) placing them on a par with Government securities in this regard.

IV. The Rural Credit Survey :

As already mentioned, the functions exercised by the Reserve Bank in regard to the provisions of rural finance have been made more effective in certain respects or the framework itself expanded in certain others, but there remained the vital question of formulating a long-term plan in regard to both policy and organization. It was in this context that the Informal Conference felt that a detailed investigation of the facts on a countrywide basis was a necessary preliminary. The recommendation was accepted by the Reserve Bank. The All India Rural Credit Survey was the outcome. The Central Report of the Commtittee of Direcion of the All-India Rural Credit Survey, which was released in December 1954 makes far-reaching recommendations for the creation of an integrated system of agricultural credit.

V. Standing Advisory Committee and its Division into Two Bodies :

Along with the steps taken to make accommodation from the Reserve Bank more and more liberal, the Informal Conference also suggested that there should be closer co-ordination between the activities of co-operative institutions on the one hand and the policies and operations of the Reserve Bank on the other. In

this context, they suggested the establishment of a Standing Advisory Committee on Agricultural Credit. Accordingly, a Standing Advisory Committee consisting of 14 members was set up in July, 1951 for advising the Reserve Bank "on matters pertaining to its Agricultural Credit Department and subjects allied to those matters". The Committee has so far met four times, besides reviewing the work of the Agricultural Credit Department and giving advice on various points raised, the Committee evolved suitable standards with regard to different aspects of co-operative banking and administration such as the maintenance of fluid resources, uniformity of audit classification, etc.

Among the recommendations of the Rural Credit Survey Report which have been accepted is one, which concerns future arrangements for making available to the Reserve Bank and to the Government of India, expert and representative advice on matters concerning Rural Credit and Co-operative Development. As mentioned above, the Standing Advisory Committee emerged from the implementation of one of the suggestions of the Informal Conference on Rural Finance convened by the Bank in 1951. The proposal at that time made was that the Standing Advisory Committee should be an expert, rather than a representative body with a membership which, consequently, would be relatively small. At the same time, of course, the smallness would not be that of a really compact advisory body designed to meet at somewhat more frequent intervals than only once or twice a year. The actual need as emphasized by the Rural Credit Survey Committee was two-fold : On the one hand, there was a need for a Council with a wider membership than the present body, and constituted on a more or less representative basis. On the other hand, there was a simultaneous need for a much smaller Expert Committee. The larger Council could then be representative of almost all the States besides including economists, co-operators etc. Further, it could be a body common for the Reserve Bank, the Food and Agriculture Ministry and the National Co-operative Development and Warehousing Board. The Standing Advisory Committee of the Reserve Bank as distinct from the Council would then have smaller membership than at present.

More explicitly, its size would be such that it could meet at least once every quarter, perhaps oftener, for advising the Bank on important issues of policy and procedure arising from time to time in the sphere of rural credit. There would of course be provision to co-opt the Registrars or other representatives from different States, according to the particular issues under consideration on any one occasion. The Bank contemplates taking action on this recommendation shortly.

VI. Central Committee for Co-operative Training. Scheme of Training Co-operative Personnel at different Levels-Progress Made.

(a) **Training of Senior Officers** : The tours undertaken by the Research Officers of the Bank had disclosed that lack of trained personnel—a result of the inadequacy of arrangements for training—was retarding the growth of the Co-operative Movement in many States. It was against this background that the Reserve Bank of India, in collaboration with the Bombay Provincial Co-operative Institute, sponsored in April 1952 an All-India Training Scheme for the training of higher co-operative personnel of institutions as well as Co-operative Departments consisting of a six-month course at the Co-operative Training College, Poona. The College, run under the auspices of the Bombay Provincial Co-operative Institute, had already introduced a twelve-month course for intermediate personnel of the Co-operative Institutions as well as Co-operative Departments all over India, which was also recognized by the Reserve Bank of India later and subsidized by it. It was, however, felt that these facilities met only a part of the training that was needed and because of cost involved and availability of a small number of seats at the College which was located at only one place. The Reserve Bank and the Government of India, therefore, jointly constituted in November 1953 a Central Committee for Co-operative Training for formulating plans and organizing and directing arrangements in regard to the training of personnel of the Co-operative Departments and Co-operative Institutions in the several States at all levels, viz., higher, intermediate and subordinate. The Reserve Bank has undertaken the responsibility in regard to the training of the higher and intermediate personnel, while the Government of India, in co-operation with the State Governments, have under-

taken the responsibility for the training of the subordinate personnel. This Committee acts as a Committee of the Reserve Bank in so far as the training of the former two categories is concerned and as a Committee of the Government of India in regard to the training of the subordinate personnel. The progress achieved under the Scheme is reviewed below :—

(A) **Training of Higher Staff** : (The financial responsibility rests with the Reserve Bank of India). For the training of higher officials it has been decided for the time being that it should be on an All-India basis at only one Centre, viz., at Poona, where the existing facilities were to be suitably expanded, so as to provide training to about 35 to 40 candidates every six months as against 20 hitherto. The facilities at the Poona College have accordingly been expanded and two courses have been conducted under the expanded scheme. Up to now, 8 courses have been run and the 9th course commenced on 15th February 1956, with a complement of 37 candidates.

(B) **Training of Intermediate Personnel** : (The financial responsibility rests with the Reserve Bank of India). For the training of the intermediate personnel it was decided that there should be five regional centres, (including the one already existing at Poona), one each for the Southern, Western, Northern and Central Zones, each Centre training about 40 to 45 candidates every year. Five Centres have already been started under this Scheme at Poona, Madras, Pusa, Meerut and Indore. The total number of candidates currently under training at these five Centres was 294.

(C) **Training of Subordinate Personnel** : (The financial responsibility is being borne by the Government of India) Arrangements for the training of Subordinate Co-operative Personnel are contemplated on a Statewise basis. In this connection, the Central Committee, at its meeting held on 5th July 1954, finalized a scheme which since then has been approved by the Government of India. It has been circularized among the various State Governments, which have been requested to make specific proposals for the training of subordinate personnel on the lines

approved by the Government of India. The proposals received from the various Governments were under examination.

(D) **Orientation Course for Co-operative Instructors in Village Training Schools :** Recently, the Committee organized an Orientation Course at the Co-operative Training College, Poona, for the Co-operative Instructors of village extension training schools. Instructors from different States attended the Course, which lasted for about six weeks consisting of four weeks' theoretical and four weeks' practical training. The expenditure incurred in this connection was met by the Government of India.

(E) **Pilot Course of Training in Agricultural Marketing :** Similarly, a Course of training in agricultural marketing has been organized at the Co-operative Training College, Poona, for the benefit of candidates in the employ of various marketing institutions in the country. The course lasts for four months consisting of two months' theoretical and two months' practical training. The expenditure incurred in this connection is being met by the Reserve Bank of India. Thirty-seven candidates in all wree receiving training in the first Session and they came from different States.

(F) **Statement showing Loans and Advances :** The following statement shows loans and advances granted to State Co-operative Banks in various States in the Indian Union under Section 17 of the Reserve Bank of India Act for the purpose of financing seasonal agricultural operations, marketing of crop or bonafide commercial or trade transactions, repayments made and outstandings at the close of the month of June 1956.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
No. of States accom-modated.	Section of the R.B.I.Act.	Amount out-standing at the begin-ning of the month.	Advances made during the month.	Repay-ments during the month.	Outstanding at the end of the month. Amounts in lakhs	Rate of Intrests 1 1/2 pc.
16	17(4)(a)	107.65	87.75	102.10	93.30	"
	17(4)(c)	1061.89	297.93	141.82	1218.00	"
	17(2)(b)	27.10	—	25.10	2.00	"
	17(4)(a)	65.84	35.42	2.44	98.82	"
	Total Rs.	1262.48	421.10	271.46	1412.12	

CHAPTER XV

CO-OPERATIVE LEGISLATION

Under Government Resolution No. 5-8/56-Co-op.-I, dated the 6th June 1956, the Government of India set up a Law Committee under the chairmanship of the Joint Secretary to the Ministry of Food and Agriculture, with a view to evolving a simple model of legislation to govern the working of co-operative societies in India. A thorough overhaul of the existing legal provisions has been necessitated by the far-reaching recommendations of the Rural Credit Survey Committee. The main features of the integrated scheme of co-operative development have already been referred to elsewhere, but may be briefly summarized for ready reference as under :—

(1) Financial partnership of the State in co-operative rural credit in order to strengthen the credit structure with a view to stepping up agricultural production.

(2) State partnership in promoting and developing co-operative marketing, processing, storage and warehousing.

(3) State partnership in co-operative organization for the promotion of other economic activities of the rural producer in the village which are of importance to him as a cultivator, labourer, handicraftsman. These activities include farming, irrigation, transport, fisheries, milk supply and dairying, livestock-breeding and cottage industries.

(4) Integration of commercial banking in order that the State-partnered countrywide banking institution may endeavour to help in the development of rural and co-operative banking.

(5) Control of State partnership in such a manner as not to stifle originality and autonomy of the co-operative movement.

(6) Use and utilization of rural savings for rural productive purposes.

The Rural Credit Survey Committee reverts back to the classification of societies made in the first Co-operative Credit Societies Act of 1904, but with a more comprehensive meaning given to the word 'rural'. As already seen it advocates active participation of the State in the co-operative movement with a view to lending the strength of the State to the co-operative structure at all levels by contributing share capital either directly or mediately. In the case of primaries the State capital is to be returned when an optimum is reached. At the central and apex levels it is to continue indefinitely. Nomination on the management of a co-operative body follows as a result of contribution of share capital by the State Government. Thus a co-operative institution becomes a body representative of the State, the societies and the individuals. The State capital earns dividend which is to be utilised in building up certain funds already referred to elsewhere. It is against the background of these far-reaching changes that the existing co-operative legislation had to be revised as also the rules and the bye-laws of co-operative institutions.

The Law Committee consisting of both officials and non-officials appointed by the Government of India has prepared the model Bill after prolonged discussions. Though the Bill is broadly based upon the All-India Co-operative Societies Act, II of 1912, it also incorporates several useful provisions found in the various State Acts in vogue, particularly in the Madras and Bombay Acts, which have been kept up-to-date through frequent amendments. The Committee believes that the provisions in the model Bill can be uniformly applied in all the States. Chapter VI relating to State Partnership in Co-operative Societies is newly added, as it gives effect to the recommendations of the Rural Credit Survey Committee. Similarly, a new chapter is added on Land Mortgage Banks. In the Model Rules prepared by the Committee, procedures relating to arbitration, winding up and dissolution of societies and execution of awards, decrees and decisions found generally in the Rules under the Madras Co-operative Societies Act, VI of 1932, have been included. The Committee recognises the fact that in some States local conditions may justify certain modifications in the Model Bill and the Model Rules and such changes as are needed can be

introduced without disturbing the broad pattern of the model Bill and the Rules thereunder.

Chapter I.—Definitions : The preamble to the Act—a usual feature in previous enactments—has been omitted in accordance with modern practice.

1. Definition of a co-operative society with limited or unlimited liability has been newly framed.

2. A nominal or an associated member is for the first time recognised by including the associate or the nominal member in the definition of the word 'member'.

3. The definition of the word 'officer' has been made more comprehensive by including in it a liquidator of a society or an administrator as well.

4. The word 'Registrar' means and includes his Assistants or Deputies as well.

Chapter II.—Registration of Co-operative Societies. Section 5 (1). A co-operative society may, subject to the provisions of sub-section (2) be registered with or without limited liability.

(2) Unless the State Government by general or special order otherwise directs,—

(a) a co-operative society shall be registered with limited liability if any of its members is another co-operative society;

(b) no co-operative society shall be registered with limited liability, if

(i) its primary object is the creation of funds to be lent to its members;

(ii) The majority of its members are agriculturists; and

(iii) none of the members is a co-operative society.

In other words, a co-operative credit society consisting mainly of agriculturists is required to be registered with unlimited liability unless otherwise directed by the State Government.

Section 6.—Before a society is registered, its objects must not only comply with the provisions of the Act and the Rules but should also be consistent with co-operative principles and principles of social justice. It should further conform to requirements of sound business and should have reasonable prospects of success.

Section 11.—A society may change the form or extent of its liability by effecting an amendment to its bye-laws and by complying with certain formalities prescribed in the section.

Section 12.—Under this section, the Registrar has to satisfy himself that the proposed amendment to the bye-laws must not only comply with the provisions of the Act and the Rules thereunder but should also be consistent with principles of social justice.

Section 14.—Under this section, a society may transfer its assets and liabilities either wholly or partly, with any other co-operative society or divide itself into two or more co-operative societies. Such amalgamation or division can, however, be effected after giving the members and creditors of the societies concerned an opportunity to withdraw their shares or deposits in them.

Chapter III.—Members of Co-operative Societies and their Rights and Liabilities.

Sections 16 and 17.—For the first time provision has been made for admitting the State Government to the membership of a co-operative society. A co-operative society is enjoined under these sections to admit to membership only those individuals who are competent to contract, any other co-operative society and the State Government. A society may also enrol an individual as a nominal or an associate member. A nominal or an associate member shall not be entitled to any share in the assets or profits of the society.

Section 19.—Every member of a co-operative society shall have one vote in the affairs of the society. But where the State Government is a member of the society, each person nominated

by that Government on the Committee of that society shall have one vote.

Section 21.—An individual member may hold shares in a co-operative society not exceeding one-fifth of the total amount of share capital or Rs. 5,000. The State Government may by a notification in the Official Gazette fix a higher maximum in special cases.

Section 23.—A minor or a person of an unsound mind can acquire by inheritance or otherwise the share or interests of a deceased member in a co-operative society.

Section 24.—The liability of a past member or the estate of a deceased member for the debts of a co-operative society shall continue for a period of two years from the date of cessation of membership.

Chapter IV.—Management of Co-operative Societies.

Section 25.—A general body cosisting of delegates of members which is a smaller body than a gerneral body of members can exercise the powers of a General Meeting if elected in accordance with the Bye-laws of a society.

Note.—This is a new provision intended to meet bigger and larger co-operative institutions like the Railway Employees' Societies in the Bombay State and bigger co-operative urban banks having thousands of members on their rolls.

Section 26.—A society shall convene at least once a year an Annual General Meeting for the approval of the programme of its activities for the ensuing year, for the election of the Committee, appropriation of profits, consideration of annual and audit reports on the working of a society.

Section 27.—If a Special General Meeting is not called in accordance with the requisition of members, the Registrar or his Deputy can call such a meeting.

Section 28.—In certain circumstances mentioned in this Section, the State Government or any authority specified by it is given the right to nominate one-third of the total number of

members or three, whichever is less, on the Committee of a Co-operative Society.

Section 29.—This is a very important provision giving the Registrar the power to supersede the Committee of a co-operative society in certain eventualities mentioned in the Section and to appoint in its place one or more members of a society or one or more administrators who may not be members at all, to manage the affairs of the society in question, for a period of two years in the first instance, and the period may be extended up to four years at the discretion of the Registrar. The person or persons so appointed are empowered to exercise all or any of the functions of any officer or take such action as may be necessary in the interests of the society. Before taking action under this section, the Registrar is required to consult any financing agency if the society is indebted to it. Further, the Committee or the Administrator as the case may be has to arrange on the expiry of its or his term of office for the constitution of a new Committee according to the bye-laws of the society.

Section 30.—This is a drastic provision necessitated by the recalcitrancy or factious spirit of outgoing managing committee members of a co-operative society. Cases have been on record where in the absence of such a specific provision the Co-operative Department was in a fix as to what to do. To remove this handicap this provision is added. When the outgoing managing committee or an Administrator or a Liquidator on its winding up, it or he may apply to the Magistrate within whose jurisdiction the society is situated for obtaining the records and property of the society. On receipt of such an application, the Magistrate concerned may, by a warrant, authorise any Police Officer not below the rank of a Sub-Inspector to enter and search any place where the records are or are believed to be kept and to seize such records and property. On seizure the officer shall hand over to the new Committee or the Administrator or the Liquidator as the case may be, the records and the property of the society.

Chapter V.—Privileges of Co-operative Societies.

Section 31.—Any debt owing to a co-operative society by

a member shall be a first charge upon the crops and other agricultural or industrial implements, raw materials for manufacture and finished products belonging to a member. A member shall not transfer any property which is sujbect to a first charge to the society except with his permission in writing. Any transfer of property made in contravention of this provision will be void. The first charge will be available as against any claim of the Government arising from a loan granted under the Land Improvement Loans Act, 1883, or the Agriculturists Loans Act, 1884, after the grant of the loan by the society.

Note.—This is one of the most important privileges of a co-operative society. It is because of this prior claim of the society that loans made by it to its members are usually well secured.

Section 32.—A member of a co-operative society may execute an agreement in favour of a society, authorising his employer to deduct from his salary such amount as may be specified in the agreement and pay the amount so deducted towards the repayment of the loan taken by him from the society.

Section 33.—This section gives the society a right to take in satisfaction of a member's or a past member's debt or an outstanding demand, the share capital he has paid any deposit kept by him, and any other sum due to him by the society. But a provision is added to the effect that in the case of a financing bank it cannot exercise this right of set-off in respect of a reserve fund kept with it as deposit by an affiliated society if the bank is not the sole creditor. It is provided in the Bill that the Reserve Fund of an affiliated society should be compulsorily invested as a deposit with the central financing agency to which it is affiliated. The object of such a provision is to keep the Reserve Fund of a society intact, so as to make it available to its creditors in case of need. So where there are more than one creditor of such a society including the central financing agency, the right of set-off given to the central bank gets defeated.

Section 35.—In addition to exemption from income-tax, registration and other fees which co-operative societies enjoy

at present, the State Government may exempt any class of societies from taxes on agricultural income, on sale or purchase of goods, and on professions, trades, callings and employments.

Chapter VI.—State-Aid to Co-operative Societies.

Sections 38 and 39.—The State Government may directly or indirectly subscribe to the share capital of a society, with limited liability, and it is not entitled to get a dividend at a higher rate than the one payable to any other shareholder. It may provide money to an apex society for this purpose.

Section 40.—An apex society in receipt of monies from the State Government is required to establish a Fund called the "Principal State Partnership Fund" to be utlilised for the following purposes :—

(a) Direct purchase of shares in other co-operative societies with limited liability.

(b) Provision of money to a central society to enable such society to make purchases of shares in other co-operative societies with limited liability (Primary Societies.).

(c) Making payments to the State Government in accordance with the provisions of this Chapter.

Sections 41 to 49.—Every purchase of shares out of the monies in the Principal State Partnership Fund or Subsidiary State Partnership Fund shall be made only with the previous approval, in writing, of the State Government. The liability in respect of shares purchased out of the Funds mentioned above will be limited to the amount paid in respect of such shares. If a Central Co-operative Society in which shares are purchased from the Principal State Partnership Fund or a Primary co-operative society in which shares are purchased from a Subsidiary State Partnership Fund, is liquidated, the State Government shall not have any claim against the apex society in respect of any loss arising from such purchases. All monies to the credit of the Principal or Subsidiary State Partnership Funds shall not form part of the assets of the Apex or Central Society. The State Government may enter into an agreement with an apex society, setting out the terms

and conditions on which it shall provide monies to the apex society for the purchase of shares in central societies or for the purposes of providing monies by it to central societies to enable them to purchase shares in primary societies.

Note.—This is an important Chapter included in the model Bill in implementation of the recommendations of the Rural Credit Survey Committee.

Chapter VII.—Properties and Funds of Co-operative Societies.

Section 52.—Funds are not to be divided except net profits, but remuneration may be paid to any one for service rendered.

Section 53. Out of the net profits in a year, a co-operative society shall transfer an amount which is not less than 25 per cent of the profits to the reserve fund. It shall also contribute to the "Co-operative Education Fund" at a rate prescribed in the Rules. The balance of net profits may be utilised by it in payment of dividend, in payment of bonus to members in proportion to the amount or volume of business done by them with the society, in payment of bonus to employees, and in creation of funds.

Section 54.—Investment of Funds.

Section 55.—Restrictions on borrowings.

Section 56.—Restrictions on loans.

Section 57.—Restrictions on transactions with non-members.

Section 58.—Establishment of Provident Fund. for the benefit of employees.

Chapter VIII.—Audit, Enquiry, Inspection and Surcharge.

Section 59.—Audit.

Section 60.—Communication of defects disclosed at audit to co-operative societies.

Section 61.—The Registrar may, of his own motion, by himself or by a person authorised by him by an order in writing hold an enquiry into the constitution, working and financial position of a co-operative society. The Enquiry Officer may require

the officers of a society to call a general meeting of the society or if they fail to do so, he may himself call such meeting after dispensing with the period of notice either at the headquarters of the society or any branch office. He may summon and examine on oath any of the office-bearers of the society and will have at all times access to the books, accounts and documents, securities, cash, and other properties belonging to the society in question. Such a meeting shall have powers of a general meeting and its proceedings shall be governed by the by-laws of such a society except that no quorum or period of notice will be necessary for such a meeting.

Section 62.—Inspection of Books of a Co-operative Society by the Registrar on his own motion.

Section 63.—Cost of enquiry and inspection.

Section 64.—This is a very important Section. If in the course of an audit, enquiry or inspection, it is found that a person who was entrusted with the management of a society has made any payment contrary to the Act, the Rules and the Bye-laws, or has caused any loss to the society by breach of trust or by gross negligence, the Registrar may, after an enquiry into the conduct of the person, order him to restore the money or the property.

Note.—The power under this Section is often delegated to an Assistant Registrar, and there is every likelihood of the power being used in matters which do not strictly fall within the scope of this Section unless proper watch is kept by the Supervising or Superintending Officers. There is a further danger that the orders once passed by a subordinate officer are upheld by his superiors, as there is no appeal provided to the Tribunal under this section but only to the Registrar or the State Government. It is, therefore, up to the higher officials of the Department and the State Government to see that this Section is invoked only in appropriate cases. In order not to keep the sword of enquiry and proceedings thereafter hanging under this section over the heads of delinquents for an indefinite length of time, a period of limitation is rightly introduced and no enquiry can be made after the lapse of six years from the date of any act or omission referred to in the Section.

Chapter IX-Settlement of Disputes.—Sections 65 and 66 Disputes which may be referred to arbitration.

A dispute touching the constitution, management or the business of a co-operative society shall be referred to the Registrar and no Court shall entertain a suit or other proceedings in respect of such disputes. The dispute may be decided by the Registrar himself or may be transferred to another person who has been invested with powers in that behalf by the State Government or to any one arbitrator. The dispute referred to above may arise between—

	I	II
A		**A**
(a)	Member or members.	Members or members.
(b)	Past Member or Members.	Past member or members.
(c)	Persons claiming through a member or a past member or a deceased member.	Persons claiming through a member or a past member or a decased member.
B		**B**
(a)	Member or members	The society, its committee, or any officer, agent, or employee of the society.
(b)	Past member or members.	
(c)	Persons claiming through a member or a past member or a deceased member.	
C		**C**
	The society or its committee.	Past Committee or any officer (past or present) or agent (past or present) or employee (past or present) or the nominee, heirs or legal representatives of any deceased officer or agent or employee.
D		**D**
	Any one society.	Any other society.

Where a dispute is one relating to the constitution or management or business can be decided by the Registrar and his decision cannot be called into question in any civil court.

Chapter XI—Land Mortgage Banks.

Provisions regarding the working of co-operative land mortgage banks have been for the first time included in the model Bill governing other co-operative societies. In Madras there is a separate Land Mortgage Banks Act and provisions in this Chapter are mostly based on the provisions contained in that Act.

Section 71—Definitions.

Section 72—Appointment of a Trustee and his powers and functions.

Section 73—Trustee to be a Corporation sole, who can sue and be sued in his own name.

Section 74—Issue of Debentures by the State Co-operative Land Mortgage Bank.

Section 75—Charge of Debenture-holders on certain properties.

Section 76—Debentures issued by a State Co-operative Land Mortgage Bank shall carry the guarantee of the State Government as to repayment of principal and payment of interest. The State Government may, subject to any law of the legislature increase the maximum amount of any guarantee or restrict the amount thereof or even discontinue any guarantee given by it after consulting the Board of any State Co-operative Land Mortgage Bank and the Trustee, or it may modify the conditions subject to which the guarantee is given, provided the withdrawal, restriction or modification will not have retrospective effect.

Section 77—The State Government may guarantee for any specified period the repayment of a loan granted by a land mortgage bank in excess of the limit to which a borrower is entitled on the basis of the value of the land determined in accordance with the standards of valuation in force, provided the loan is for the development and improvement of land.

Section 78—A mortgage executed in favour of a co-operative land mortgage bank will have priority over any claim of the Government arising from a loan under the Land Lmprovement Loans Act, 1883, or the Agriculturists Loans' Act, 1884.

Section 79—Right of the Land Mortgage Banks or the State Co-operative Bank to purchase mortgaged property.

Section 80—A mortgage executed in favour of a primary land mortgage bank will stand automatically vested in the State Co-operative Land Mortgage Bank.

Section 81—Power of Land Mortgage Banks to receive monies and grant discharges.

Section 82—Right of a co-operative land mortage bank to pay prior debts of mortgagors.

Section 83—If an instalment payable in respect of a loan made by a co-operative land mortgage bank remains unpaid, the Registrar may, on the application of the land mortgage bank, direct the recovery of the amount due by distraint and sale of the mortgaged property subject to the condition that no distraint shall be made after the expiry of twelve months from the date when the instalment became due and the value of the property shall as nearly as possible be equal to the amount due plus the expenses of the distraint and costs of sale.

Section 84—Powers of sale when to be exercised.

Section 85—Power of a Land Mortgage Bank to treat a loan as due for repayment and to take action under Section 83 or 84 in cases where the mortgaged property is destroyed and and security becomes insufficient in consequence.

Section 86—Power of the Board of a State Co-operative Mortgage Bank or of the Trustee to distrain and sell property.

Section 87—Title of the purchaser not to be questioned on the ground of irregularity.

Section 88—Mortgage not to be questioned on insolvency of a mortgagor.

Section 89—Appointment of a Receiver and his powers.

Section 90—A mortgagor's powers to lease.

Section 91—Registration of documents executed on behalf of a land mortgage bank, or of the State Co-operative Land Mortgage Bank.

Section 92—Delegation of certain powers by the Board of Directors of a State Co-operative Land Mortgage Bank.

Section 93—Sections 102, 103 and 104 of the Indian Transfer of Property Act, 1882, to apply to notices under this Chapter.

Section 94—Powers of the Board to make regulations.

Chapter XII. Execution of Awards, Decrees, Orders and Decisions.

Section 95—Enforcement of charge.—Notwithstanding anything contained in Chapter IX or any other law for the time being in force, but without prejudice to any other mode of recovery provided in this Act, the Registrar or any person subordinate to him specifically empowered, may on the application of a co-operative society make an order directing the payment of any debt or outstanding demand due to the society by any member or past or deceased member by sale of the property or any interest therein which is subject to a charge under Section 31 (1). Before dong so, the member, or past member or the nominee, heir or legal representative of the deceased member should be served with a notice to pay up the debt or outstanding demand and he should have failed to pay within seven days from the date of such notice.

Section 96—Execution of Orders.—Every

(1) order of the Registrar under Section 62 (2) or Section 95;

(2) decision or order under Section 66;

(3) order made by the Liquidator under Section 69;

(4) order made by the Tribunal under Sections 101 103, 104 and 105;

(5) order made by the Tribunal under Section 102 shall, if not carried out, be deemed to be a decree of a Civil Court and shall be executed in the same manner as a decree of Civil Court, or according to law and under current rules for the recovery of arrears of land revenue, on a Certificate signed by the Registrar or a person specifically empowered in this behalf, provided that any application for the recovery in such manner of any sum shall be made—

(i) to the Collector and shall be accompanied by a certificate signed by the Registrar or by any person authorised by him in this behalf;

(ii) within twelve years from the date fixed in the order, decision or award and if no such date is fixed, from the date of the order, decision or award, as the case may be.

The order, decision or award may be executed by the Registrar or any other person subordinate to him empowered by the Registrar in this behalf by the attachment and sale or sale without attachment of any property of the person or a co-operative society against whom the order, decision or award has been obtained or passed.

Section 97—the Registrar or person empowered by him to be a civil court for certain purposes.—The Registrar or any person specifically empowered while exercising the powers of recovery of any amount under this Act, while passing orders on application for recovery or for taking a step in aid of such recovery is regarded as a Civil Court for the purposes of Article 182 of the First Schedule to the Indian Limitation Act, 1908.

Section 98—Attachment of Property before award or order.—If the Registrar is satisfied on an application, report, enquiry or otherwise, that any person, with the intention of delaying or obstructing the enforcement of any order or decision or award, is about to dispose of the whole or any part of his property or is about to remove the whole or any part of his property from the jurisdiction of the Registrar, the Arbitrator or the Liquidator, as the case may be, may, unless adequate security is furnished, direct the attachment of such property and such attachment shall have the same effect as if made by a competent Civil Court.

Section 99—Recovery of Sums due to Government.—All sums due from a co-operative society or from an officer or member or past member of such society to Government, including any costs awarded to Government, under the Act, may, on a Certificate issued by the Registrar in this behalf, be recovered in the same manner as arrears of land revenue. Similarly, sums so recoverable shall be recovered firstly, from the property of the society; secondly, in the case of the society with limited liability from the members, past members, or the estate of deceased members up to the limit of their liability; and thirdly, in the case of other societies with unlimited liability, from the members, past members or the estates of deceased members, subject to the provisions of Section 24.

Chapter XIII.—Appeals, Revision and Review.

Section 100—Co-operative Tribunal.—The State Government shall establish a Co-operative Tribunal consisting of not more than three members with the qualifications prescribed. Two members form a quorum for the disposal of its business. Any vacancy in the membership of the Tribunal is filled in by the State Government. The Tribunal is empowered to frame regulations and prescribe procedure for the disposal of its own business. Regulations so framed are required to be published in the Official Gazette and will come into force from the date of such publication.

Section 101—Appeals to the Tribunal.—The following orders or decisions are appealable :—

(1) Decision of the Registrar or decision of any person specifically empowered in that behalf under Section 66 (1).

(2) Any award of the Arbitrator under Section 66 (c) (1).

(3) Order made under Section 98 with a view to preventing any delay or obstruction in the execution of any decision or award.

(4) Any award made under Section 66.

The appeal must be preferred to the Tribunal within two months from the date of the decision, award or order.

Section 102—Appeals to other authorities. The following orders or decisions of the Registrar are appealable to the State Government :—

(1) An order of the Registrar under Section 7(2) refusing to register a society.

(2) An order of the Registrar under Section 12 (4) refusing to register an amendment.

(3) An order of the Registrar removing the committee of a co-operative society under Section 29.

(4) An order made by the Registrar under Section 63 apportioning the cost of an enquiry held under Section 61 or an inspection made under Section 62.

(5) An order of surcharge made by the Registrar under Section 64.

(6) An order made by the Registrar under Section 67 directing the winding up of a co-operative society.

(7) An order made by the Registrar under Section 96.

(8) An order for attachment of any property made by the Registrar under Section 98.

The period of appeal is 60 days from the date of decision or order. The following orders or decisions made by the following persons or bodies are appealable to the Registrar within 60 days of the date of passing the order or making the decision :—

(1) A decision of a co-operative society refusing to admit any person or expelling anymember.

(2) An order made by the Liquidator of a co-operative society in exercise of the powers conferred on him under Section 69.

No appeal shall lie under this Section from any decision or order made by the Registrar in appeal. For the purpose of this

section the Registrar shall not include any person exercising all or any powers of the Registrar. It may be noted in this context that the power of levying a surcharge on delinquents given to the Registrar under Section 64 is a very wide power and should have been made appealable to the Co-operative Tribunal instead of to the State Government.

Section 103—Revision by Tribunal—The Tribunal has the power to revise the order or decision given in cases where an appeal lies to it for the purpose of satisfying itself as to the legality or propriety of any such order or decision.

Section 104—Review of orders by Tribunal.—The Tribunal is also empowered to review its own order on application by the Registrar or on the application of any other interested party, and may pass such order as it may deem fit. Before such an order is passed revising its own decision, the following conditions must be fulfilled :—

(1) There should be a discovery of a new and important matter or evidence which was not within the knowledge of the applicant; or

(2) it could not be produced at the time when the order was made by the Tribunal.

(3) There has been an apparent mistake or error on the face of the record or for any other sufficient reasons.

(4) Notice must be given to all interested parties and a reasonable opportunity given of being heard.

(5) An application for review must be made within ninety days of the date of communication of that order.

Section 105—Interlocutory Orders by Tribunal.—The Tribunal has power to pass interlocutory orders in cases where an appeal is made or where it calls for the review in order to prevent the ends of justice being defeated, pending the decision or appeal or revision as it deems fit.

Chapter XIV—Offences and Penalties.

Section 106— (1) Any person other than a co-operative society using the word 'co-operative' or its equivalent in any

Indian language without the previous permission of the State Government is punishable with a fine of Rs. 200.

(2) Any person contravening the provisions of Section 32 by disposal of any property liable to a first charge of a co-operative society is punishable with a fine up to Rs. 200.

(3) Any officer of a co-operative society or its member wilfully making a false return or furnishing false information or any person wilfully disobeying any summons, requisition or lawful written order issued under the Act, or wilfully not furnishing any information to a person authorised in this behalf under this Act is punishable with a fine up to Rs. 200.

(4) Any employer who, after deducting amounts due to a society, fails to pay them without sufficient cause within fourteen days from the date of deduction is punishable with fine up to Rs. 500.

Section 107—Cognisance of Offences.—No Court inferior to that of a Presidency Magistrate or a Magistrate of the First Class is empowered to try offences under this Act and no prosecution shall be launched without obtaining the previous sanction of the Registrar who shall not give such sanction unless the person concerned is given an opportunity to represent his case.

Chapter XV—Miscellaneous Provisions.

Section 108—Prohibition against the use of the word ' co-operative '.

Section 109—Address of Co-operative Societies.

Section 110—Copy of the Act, the Rules and the Bye-laws to be open to inspection.

Section 111—Powers of a Civil Court.

The Co-operative Tribunal, Registrar or any other person deciding a dispute and the Liquidater of a co-operative society shall exercise the powers of a Civil Court while trying the suit under the Code of Civil Procedure, 1908, in respect of the following matters :—

(a) Summoning and enforcing the attendance of any

person and examining him on oath;

(b) requiring the discovery and production of any document;

(c) proof of facts by affidavits;

(d) issuing commission for examining witnesses.

In the case of any affidavit any officer appointed by the Tribunal, the Registrar, the Abritrator, or any other person deciding a dispute orthe Liquidator, as the case may be, may administer the oath to the deponent.

Section 112—Bar of Jurisdiction of Civil Courts : Except as provided in this Act, no civil or revenue court shall have any jurisdiction in respect of—

(1) the registration of a co-operative society or bye-laws or of an amendment of a bye-law;

(2) the removal of a committee;

(3) any dispute required under Section 65 to be referred to the Registrar;

(4) Any matter concerning the winding up and dissolution of a co-operative society ;

(5) No order, decision or award made under this Act shall be questioned in any Court on any ground whatsoever.

Note. This appears to be a sweeping provision, and is sometimes likely to cause more injustice to non-members over whom jurisdiction might have been assumed illegally by an Aribitrator or a Liquidator, and it is doubtful also whether there can be ouster of jurisdiction of a civil court in cases where the order made or a decision taken is patently illegal.

(2) While a co-operative society is being wound up, no legal proceedings relating to the business of such society shall be proceeded with or instituted against the Liquidator as such, or against the society or any member thereof, except by leave of the Registrar and subject to such terms as he may impose.

Sections 113 and 114—Power to exempt societies or a class of societies, from conditions of registration.

Section 115—Register of Members.

Section 116—Proof of entries in co-operative societies' books.

Section 117—Service of Notice under the Act.

Section 118—Notice necessary in suits.

Section 119—Acts of Co-operative Societies not to be invalidated by certain defects.

Section 120—Indemnity.

Section 121—Companies Act not to apply.

Section 122—Savings of existing societies.

Section 123—Powers to make rules. In virtue of the powers conferred on it under this Section, the State Government may make Rules for the whole or part of the State or for any class of societies to carry on the purposes of the Act. Such rules may provide for all or any of the following matters among others :—

(1) How the applicant who has been refused registration of a co-operative society by the Registrar should proceed.

(2) Procedure and conditions for change in the form and extent of liability of a co-operative society.

(3) The qualifications or disqualifications of individuals who may be admitted as members of co-operative societies.

(4) The remuneration payable to a new Committee or Administrators appointed in place of a Committee removed by the Registrar.

(5) The qualifications or disqualifications for membership of a Committee of a co-operative society.

(6) Matters connected with the direct and indirect partnership of the State Government in co-operative societies.

(7) The mode of disposal of reserve fund of a co-operative society on its winding up.

(8) Restrictions on grant of loans by a co-operative society against its shares.

(9) The form and standard of fluid resources to be maintained by co-operative societies accepting deposits and granting cash credits.

(10) The qualifications of members of the Tribunal.

(11) Statements and Returns to be furnished by co-operative societies to the Registrar.

(12) Restrictions on persons appearing as legal practitioners on behalf of co-operative societies.

(13) Inspection of documents and the levy of fees for granting certified copies thereof.

(14) Matters expressly required to be prescribed.

Section 124.—Repeal.

Important Provisions in the Model Rules.

Rule No. 2. Definitions :

(a) "Recovery Officer" means a person subordinate to the Registrar who is empowered to exercise in a district the powers of the Registrar under Section 96 of the Act.

(b) "Sale Officer" means an officer empowered by the Registrar by a general or a special order to attach and sell the property of defaulters or to execute any decree by attachment and sale of property.

(c) "Defaulter" means any co-operative society against which, or any person against whom a decree has been obtained.

(d) "Decree" means any order, decision or award referred to in Section 92 of the Act.

Rule No. 5. Subject-matter of Bye-laws

The bye-laws of a co-operative society shall provide for certain matters essential for its organization and management such as the objects of the society, the nature and extent of the liability of the members, the extent to which the society may borrow

funds, the purpose for which the funds may be applied etc. In addition to these, the bye-laws may also make provision in regard to matters which are incidental to the organization of the management of its business, e. g; manner of recruitment and conditions of service of employees,

Rule No. 6. An amendment of the bye-laws of a co-operative society shall be made by a resolution passed by two-thirds majority of the members present and voting.

Rule No. 8. A person shall not become a member of two primary credit societies.

Rule No. 10. The: Chairman of a meeting of a co-operative society shall have a second vote.

Rule No. 11. A defaulting member shall not be appointed to represent a society on another co-operative society.

Rule. No. 14. For the purpose of election of members to its committee, a co-operative society may divide its membership into different groups on a territorial or any other basis. The bye-laws of such a society may specify the number or proportion of the members of the committee who may be elected to represent such group on the committee. It may be further provided that such representatives may be elected by all the members of the society or by only that particular group of members of the society to whom such representatives belong.

Rule No. 17. A co-operative society shall not appoint any person as its paid officer or employee in any category of service unless he possesses such qualifications and furnishes such security as may be specified by the Registrar.

Note. A society is a democratic institution and its paid employees ought to work under its control. Of course, the Registrar may, by general instructions, lay down qualifications for different posts, but the power of recruitment must rest with the society.

Rule No. 19. Every co-operative society shall contribute an amount not exceeding 5 per cent. of its net profits in any one year to the Co-operative Education Fund, which will be

administered by the State Co-operative Union, and if there is no such Union, by a Committee appointed by the Registrar.

Note. This Committee appointed by the Registrar should be, as far as possible, representative of all interests concerned.

Rule No. 22. The Reserve Fund of a co-operative society shall be indivisible and no member shall have a claim to any share in it. It shall not be withdrawn without the permission of the Registrar previously obtained in writing. Unless otherwise permitted by the Registrar, the Reserve Fund shall not be invested by the society in its business.

Note. As far as possible, this restriction should apply only to societies with limited liability.

Rule No. 24. A co-operative society shall not receive deposits and loans from members or non-members exceeding the limit fixed by the Registrar for that society. However, a co-operative society which accepts deposits from members only and and has no outside liability may accept such deposits in excess of the limits fixed by the Registrar, provided that the excess amount is invested outside the business of the society.

Note. The **raisin d'etre** of this rule is not clearly understood. The maximum liability which a society may incur from time to time by way of deposits from members and non-members is fixed by the society in its general meeting. This power is left to be exercised by the members assembled in a general meeting through a provision in the rules under the Act or the bye-laws. Within this limit fixed, societies should be free to accept deposits, provided they are well-managed. It is only when a society is not doing well, restrictions on its power of accepting deposits within the limit prescribed by the Registrar should be deemed desirable. Prohibition should be particularly welcome in case of deposits from non-members beyond certain local limits of a society. As regards members' deposits, they should be encouraged even when the society does not need the same, as it thereby helps the members to practise thrift. If the deposits so accepted are really surplus to its requirements, they may be passed on to a central financing agency, under certain conditions of repay-

ment in order to enable the society to meet them on maturity. Thus no limit need be fixed on accepting members' deposits, provided the society has made proper arrangements for repayment on their maturity. In the case of societies with limited liability, their borrowing power is laid down under the Rules under the Act and is ordinarily limited to a definite multiple of their share capital and reserve fund, and borrowings are not normally allowed to be exceeded beyond ten or twelve times the share capital and the reserve fund. Within this limit societies should be free to raise deposits from members and non-members as well, provided they make satisfactory arrangements for maintenance of fluid resources according to a prescribed scale or standard. Unless a society is so badly managed as to warrant the imposition of restrictions on its borrowing power, it would appear desirable for the Registrar not to interfere with the normal operations of deposit banking carried on by societies.

Rule No. 27. Every co-operative society accepting deposits and granting cash credits shall maintain fluid resources in such form and according to such standards as may be prescribed by the Registrar.

Rule No. 28. Every co-operative society shall pay to the State Government a fee for the audit of its accounts in accordance with the scale fixed by the Registrar with the previous approval of the State Government.

Rule No. 35. No member shall be qualified to become a member of the Tribunal unless he has been a District Judge or has exercised the powers of a District Judge or has been an Advocate of at least ten years' standing, or is a Law Graduate having considerable experience of the Co-operative Movement.

Rule No. 38. The Registrar may direct a co-operative society to get its accounts written up to any date in such form and within such time as he may direct. In case of failure by a society to do so, the Registrar may get the accounts written up by a person deputed by him for the purpose and may recover the cost thereof from the society.

Rule No. 39. Every co-operative society shall furnish to the Registrar every year receipt and disbursement statements, Profit and Loss Account and a Balance Sheet and any other returns prescribed by him. In case the society fails to do so, the Registrar may depute a person to get the returns and recover the cost thereof from the society.

Rule No. 42. A member of the public may inspect any of the following documents in the Office of the Registrar of Co-operative Societies, free of charge, but may obtain certified copies on payment of fees prescribed.

(1) Application for Registration of a society.
(2) Certificate of registration.
(3) Bye-laws of societies.
(4) Amendments of Bye-laws of a society.
(5) Order of cancellation of the registration of a society.
(6) Audit Memo.
(7) Annual Balance Sheet.
(8) Order for surcharge under Section 64.
(9) Order referring a dispute to arbitration under Section 66.
(10) Order of supersession of a committee or removal of any committee member.
(11) Any other order against which an appeal is provided.

BIBLIOGRAPHY

The following books, pamphlets, Brochures, Journals have been consulted in the preparation of this Book.

S.No.	*Title of the Book*	*Author or Authors*
1.	Manual for Co-operative Societies in the Bombay State	Govt. of Bombay
2.	Manual for Co-operative Societies in the Madras State	Govt. of Madras
3.	Report of the Committee on Co-operation in India	Govt. of India
4.	Report of the King Committee in C.P.	Govt. of C.P. & Berar
5.	Report of Oakden Committee in U.P.	Govt. of U.P.
6.	Report of Townsend Committee in Madras	Govt. of Madras
7.	Report of Calvert Committee in Burma	Govt. of Burma
8.	Report of Committee on Co-operation in India	Govt. of India
9.	Report of Agricultural Finance Sub-Committee	Govt. of India
10.	Report of Indian Delegation to China	Govt. of India
11.	Summary of the First Five Year Plan	Govt. of India Planning Commission
12.	Summary of the Second Five Year Plan	Govt. of India Planning Commission
13.	The Place of Co-operation in the 2nd Five Year Plan (a pamphlet)	R. G. Saraiya, Bombay State Co-operative Union
14.	Our Rural Problem	M/S. Manilal & Anjaria
15.	The Economics of Agriculture—Part II	Narayanswami Naidu & Narasimham
16.	The Agricultural Economics	O'Brien
17.	Reviews of the Co-operative Movement in India—1939-40, 1939-46, 1946-48, 1948-50, 1950-52, 1952-54.	Agricultural Credit Department, Reserve Bank of India

S.No.	*Title of the Book*	*Author or Authors*
18.	Co-operative Banking	G. M. Laud
19.	Reports of Standing Advisory Committee on Agricultural Credit August 1951, December 1952.	Reserve Bank of India
20.	General Report of the Rural Credit Survey Committee—Vol. II	Reserve Bank of India
21.	Provision of credit with special reference to Agriculture	H. W. Belshaw
22.	Agricultural Credit	Boyazoglue
23.	Report of the Central Banking Enquiry Committee	Govt. of India
24.	Report on Central Area Banking Enquiry Committee	Govt. of India
25.	The Co-operative Movement in India ..	S. P. Mukherji
26.	Co-operative News Digests—Relevant Issues.	Agricultural Credit Department, Reserve Bank of India
27.	Co-operative Movement in India	Dr. Miss E. Hough
28.	Report on the Co-operative Marketing of Agricultural Produce in India	Directorate of Marketing & Inspection, Ministry of Food & Agriculture, Govt. of India
29.	Report of the All India Rural Credit Survey Vol. I—Summary	Reserve Bank of India
30.	Report of the Agricultural Credit Reorganisation Committee, Bombay	Govt. of Bombay
31.	Annual Administration Reports on the working of Co-operative Societies—Bombay State for the years 1953-54, 1954-55, 1955-56	Govt. of Bombay
32.	Annual Administration Reports on the working of Co-operative Societies—Madras State for the years 1953-54, 1954-55, 1955-56	Govt. of Madras
33.	Annual Administration Reports on the working of Co-operative Societies—Andhra State for the years 1954-55, 1955-56	Govt. of Andhra
34.	Co-operative Training Facilities provided by the Central Committee	Reserve Bank of India, Bombay

S.No.	*Title of the Book*	*Author or Authors*
35.	Co-operative Experiments in Rural Banking—a pamphlet	K. Satyanarayan
36.	Co-operative Farming and Individual Farming on Co-operative Lines	Dr. Otto Schiller
37.	Co-operative Farming in Bombay Province	Capt. S. P. Mohite, Published by Govt. of Bombay.
38.	Co-operative Marketing for Agricultural Producers	Digby and Grettan
39.	The Year-Book and Directory of Indian Co-operation—1940	V. Ramdas Pantulu Published by the All India Co-operative Institutes' Association, Madras
40.	Report of the Committee on Co-operation, Madras—1940—Vijaya—Raghavachariar	Govt. of Madras
41.	Report of the Committee on Co-operation, Madras—1955-56	Govt. of Madras
42.	Co-operative Farming—Some critical Reflections	Raj Krishna, L. C. Jain & Gopi Krishan All India Co-op. Union
43.	Studies in Co-operative Farming	Programme Evaluation Organisation, Planning Commission, Govt. of India
44.	Report of the Committee on Co-operative Law—Parts I and II	Ministry of Food and Agriculture, Govt. of India.
45.	Agricultural Marketing in India with special reference to Co-operative Marketing of Agricultural Produce in India—Vol. II	Prof. K. R. Kulkarni
46.	Agricultural Finance in India	D. K. Rangnekar
47.	The Bombay Co-operative Quarterly Relevant issues	Bombay State Co-operative Union
48.	Proceedings of the Conferences on Co-operation and Marketing held at Hyderabad and Jaipur, 1955, 1956	Ministry of Food & Agriculture, Govt. of India.
49.	Proceedings of the State Ministers' Conference held at Mussoori, 1956	Ministry of Food & Agriculture, Govt. of India.

INDEX

A

Act : Co-operative Societies X of 1904 7
Act : Co-operative Societies II of 1912 8, 9, 10
Act : Co-operative Societies II of 1912—Effect of 9, 10
Act : Bombay Co-operative Societies VII of 1925 14
Act : Madras Co-operative Societies VI of 1932 14, 15
Act : Madras Land Mortgage Banks X of 1934 16
Act : Bihar & Orissa Co-operative Societies VI of 1938 17
Act : Bengal Co-operative Societies XXI of 1940 18
Act : Hyderabad Co-operative Societies Fasli 1323 18
Act : Mysore Co-operative Societies VII of 1935 18
Act : Baroda Co-operative Societies 1934 19
Act : Gwalior Co-operative Societies Sanvat 1974 19
Act : Agricultural Produce (Warehousing & Development) 1956 63
Act : The Deccan Agricultural Relief 1879 82
Act : The Reserve Bank of India 1934 60
Act : The Usurious Loans 1918 83
Act : Registration of documents 1874 86
Act : Transfer of Property 1882 86
Act : Redemption of Mortgages 1913 87
Act : Punjab Land Alienation 1901 86
Act : Bombay Small Holders 1938 91
Act : Bombay Agricultural Debtors' Relief 1939 285, 96
Act : U.P. Agricultural Debt Relief 1939 96
Act : Land Improvement Loans 1883 100
Act : The Agriculturists Loans 1884 101
Act : Madras Agricultural Debtors' Relief 91
Act : C. P. Moratorium 92, 93
Act : English Horticultural Produce 1926 130
Act : Agricultural Credits 1928 135
Act : Indian Companies 1936 144
Act : Indian Trusts— 425
Agricultural Finance Sub-Committee 37
Agricultural Credit Corporation 37, 38, 40
Agricultural Credit and Marketing Societies 34, 35
Agriculture costlier credit for 105, 113

Agricultural credit—characteristic features of-affecting 105, 106, 107, 108
Agricultural Credit agencies supplying 121, 122
Agricultural Credit Corporation 285
Agricultural Production important characteristics of 219, 220, 221, 222, 223
Agricultural Credit and multipurpose societies—Review of progress of—of 294, 295, 296, 297, 298
Agricultural Credit & multipurpose societies—Evolution of 299
Agricultural Crédit & multipurpose societies—operations of 300, 301, 302, 303
Agricultural Credit Department of the Reserve Bank of India 340
Agricultural Credit Stabilization Fund 168
Administrative Reforms suggested by Reserve Bank of India 184
Alamaru Bank—an experiment in large sized society 204, 205, 206
Alamaru Bank—activities of 205, 206
Alamaru Bank—Thrift & Loans introduced by 207, 208
Alamaru Bank—Non-credit activities of 209
Alamaru Bank—Co-operative farming introduced by 209, 210
Alamaru Bank—Rice depot opened by 211
All India Marketing Association 42
All India Rural Credit Survey 48
All India Rural Credit Survey Committee 48
All India Warehousing Corporation 166, 175, 176, 177
All India Handloom Board 183
All India Khadi & Village Industries Board 183
All India Conference of Registrars—opinions on Banking Unions 324, 325
All India Co-operative Review 331
Assam Banking Enquiry Committee 251
Audit Classification Uniform Standards of 341, 342, 343

B

Banking Unions—recommended by Reserve Bank and existing in Bombay State 319, 320, 321, 322, 323
Banking Unions—Progress of in Bombay State 324
Better living 159
Better farming Societies Bombay State 625
Bhansali—Mehta Committee 240
Bombay Agricultural Debtors' Relief Act 37
Bhoodan Movement 72
Bombay Provincial Co-operative Bank 40
Bombay Provincial Banking Enquiry Committee 315, 451
Bombay Bankers' Clearing House 430
Bombay Shroff's Association 139

Bombay State Co-operative Bank 423
Bombay State Co-operative Bank—origin, aims and objects of 424
Bombay State Co-operative Bank—Constitution of the Board of Directors of of 425, 426
Bombay State Co-operative Bank—Paid up share capital & Debentures of 426, 427, 428
Bombay State Co-operative Bank—Rates of Lendings in 428
Bombay State Co-operative Bank—Working Capital and owned funds of 429
Bombay State Co-operative Bank—Inland Exchange undertaken by 429
Bombay State Co-operative Bank—Mutual arrangement scheme introduced by 429
Bombay State Co-operative Bank—Revised Constitution of the Board of Directors 431, 432
Bombay State Co-operative Bank—Qualifications of Board of Directors 433
Bombay State Co-operative Bank—Loan operations of 437, 438, 439, 440
Bombay State Co-operative Bank—Arrears of Loans of 441
Bombay State Co-operative Bank—Special crops financed by 442, 443
Bombay State Co-operative Bank—Finance made to other societies by 444, 445, 446
Bombay State Co-operative Bank—overdue arrears in 446, 447
Bombay State Co-operative Bank-Distribution of Profits in 447
Bombay State Co-operative Bank—Income & Expenditure Position of 448
Bombay State Co-operative Bank-Explanatory note to 448, 449
Bombay State Co-operative Bank-Inspection of affiliates of 449
Bombay State Co-operative Bank-Audit of the Branches & H.O. of 450
Bombay Co-operative Banks' Association 451, 452, 453
Bombay Provincial Co-operative Land Mortgage Bank 535, 536, 537, 538, 539
Bombay Provincial Co-operative L.M. Bank—Retirement of Debentures issued by 540, 541, 542, 543, 544
Branch Banking 430
Branch Committees 434

C

Carver, Prof. 107
Cattle Breeding Societies, Bombay 638
Cattle Breeding Societies, need for 638, 639
Cattle Breeding Societies—Herd Kept by 639, 640
Cattle Breeding Societies—Application of Livestock Improvement Act to 640

Cattle Breeding Societies, Rearing of Calves in 640
Cattle Breeding Societies—Protection of Cattle against epidemics in 640, 641
Cattle Breeding Societies—finances of 641
Cattle Breeding Societies—Registration of 641
Cattle Breeding Societies—other activities of 641
Cattle Breeding Societies—Progress of—Bombay State 641, 642
Central Committee for Co-operative Training & Education 53, 65, 750, 751
Central Co-operative Farming Organization 39
Central Banking 49, 84, Enquiry Committee 136, 144, 145, 250
Central Warehousing Corporation 62
Central Financing 36, 37, Agencies 64, 304
Central Financing Agencies:—Genesis & growth of 304
Agencies Categories of 304, 305, 306, 307, 308
Central Co-operative Banks—Contrasted with Commercial Banks 308, 309
Central Banks Vs Branches of Apex Bank 315, 316
Central Banks Vs. Banking Unions 317, 318, 319
Central Financing Agencies—period of expansion of 325, 326
Central Financing Agencies—Impact of Depression on 327, 328
Central Committee—Schemes of training introduced by 750, 751
Central Financing Agencies—Impact of war on 333
Central Financing Agencies—Progress of during 1947-54 334, 335, 336
Central Financing Agencies—at the end of 1954, 348, 349, 350, 351, 352, 353, 354
Central Financing Agencies—Model Bye-laws of 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 370, 371, 369
Central Financing Agencies—Commercial activities of 369, 370
Central Financing Agencies—Branches of 370, 371
Central Financing Agencies:—Operations of 374, 375, 376, 377, 378, 379, 380, 381
Central Area Banking Enquiry Committee 128, 138, 139
Central Co-operative Banks and Banking Unions 148
Central Land Mortgage Banks 151
Chattel Credit 116
Chit Funds 140, 141
Classification of Societies according to liability 151
Classification of societies at audit 298, 299

Classification of credit for agriculture 114, 115
Consolidation of holdings 563
Consolidation of holdings—Progress of:—in India 569, 570, 571
Consolidation of holdings—step in the Punjab 571, 572, 573
Consolidation of holdings—Establishment of 573, 574
Consolidation of holdings—Objects and working of 574
Consolidation of holdings—benefits of 574, 575
Consolidation of holdings—operations of 576
Chitnavis Sir Gangadhar 576
Civil Procedure Code amendments to 83
Community Development Projects 100
Commercial Banks—Role of in Agricultural Finance 132, 133
Conference of State Ministers 67
Conference of State Ministers-Recommendations of 68, 69, 70
Co-operative Statutory Forms of 5, 6
Co-operative Agency 145, 146
Co-operative Agency—Appraisal of past record and lines of future development of 146, 147
Co-operative Agency—Present position of 147
Co-operative Banking Facilities and Structure 177, 178, 313, 314, 315
Co-operatives & Commercial Banks 135
Co-operative Commonwealth 185
Co-operative Credit—reasons for failure of 153, 154
Co-operative credit—External causes of failure 154, 155, 156
Co-operative Credit—Internal weaknesses of 156, 157, 158, 159
Co-operative Credit—fundamental causes of failure of, explained 159, 160, 161, 162, 163
Co-operative Credit—Development of—Solution of the problem 163, 164
Co-operative Credit—Integrated Scheme of 164, 165
Co-operative Credit—marketing, processing & warehousing 166
Co-operative Credit other economic activities relating to 174, 175, 176
Co-operative Collective Farm 623, 624
Co-operative Collective Farming & Tenant Farming Societies—Features of and contrast with 582, 583, 584, 585, 586
Co-operative Farming—case for 577
Co-operative Farming—advantages of 578
Co-operative Farming Societies 578, 579
Co-operative Farming—Societies—Different Types of 580, 581, 582, 583
Co-operative Joint Farming Societies 586

Co-operative Joint Farming—Working and functions of 586, 587
Co-operative Joint Farming—Co-operative Planning in 587, 588
Co-operative Joint Farming—Pooling of farm equipment in 588
Co-operative Joint Farming—Allocation of work and payment in 589
Co-operative Joint Farming—Fixation of wages Schedule in 590, 591
Co-operative Joint Farming—Distribution of Profits in 591
Co-operative Farming under the Five Year Plans 592
Co-operative Farming—Arguments against:— 592, 593, 594, 595, 596
Co-operative Farming—Chinese experiments in:— 597
Co-operative Farming—Experiments in Gangakhadar area:— 598
Co-operative Farming—in Delhi & Baroda 599
Co-operative Farming—Experiments in Bombay 599
Co-operative Farming Societies—Survey of by the Planning Commission 600, 601
Co-operative Farming Societies—Arguments for establishing 601, 602, 603, 604, 605, 606
Co-operative Farming—Recommendations of Patil Delegation to China 606, 607, 608, 609, 610, 611
Co-operative Farming—Progress of in India 611, 612, 613
Co-operative Farming Scheme in Bombay 613
Co-operative Farming Scheme in Bombay—Financial assistance for 615, 616
Co-operative Farming Scheme in Bombay—Intensive development of 617
Co-operative Farming Scheme—Recommendations of Mussoorie Conference on 618, 619, 620, 621, 622, 623
Co-operative Farming 625
Co-operative Farming—Statutory Provisions of:—in Bombay 626
Co-operative Farming Societies 628
Co-operative Crop Protection Societies 628
Co-operative Legislation and Rules 753, 778
Co-operative Marketing—Why 671
Co-operative Marketing—Advantages of 672
Co-operative Marketing Society—Aim of 672
Co-operative Marketing Society—The need for preliminary investigation before registration 672, 673
Co-operative Farming Society—Essentials of success of:— 673
Co-operative Marketing Structure 673, 674, 675, 676
Co-operative Marketing Societies—Federation of 677
Co-operative Marketing—Limitations of:— 678, 679, 680
Co-operative Marketing—General Observations on:— 680, 681, 682

Co-operative Marketing— 682, Recommendations of 683, 684, Conference on:— 685, 686

Co-operative Marketing Society—What it does and how it works 686

Co-operative Marketing Society—Origin of 686, 687

Co-operative Marketing Society-Need for modest beginning for 687

Co-operative Marketing Society—need for registration under the Law 61 687, 688

Co-operative Marketing Society—Area of operation 688

Co-operative Marketing Society—Membership of 688

Co-operative Marketing Society—Objects of 688

Co-operative Marketing Society—Capital requirements of 689, 690, 691, 692

Co-operative Marketing Society—Functions of 693

Co-operative Marketing Society—Methods of handling and paying for produce in 693, 694, 695, 696, 697

Co-operative Marketing Society—Processing undertaken by 697, 698

Co-operative Marketing Society—Method of sale followed by 699

Co-operative Marketing Society—Advances made by 699

Co-operative Marketing Society—Progress of 706

Co-operative Marketing Society—Provision of Transport handled by 699

Co-operative Marketing Society—Problems of staff of:— 700

Co-operative Marketing Society—Form of assistance needed by:— 701

Co-operative Marketing Society—Accounts & Records kept by:— 702

Co-operative Marketing Society—Internal check in:— 703

Co-operative Marketing Society—Conclusion of on Do's and Dont's 704, 705, 706

Co-operative Land Mortgage Banking, Bombay 525, 526

Co-operative Movement in India—Genesis and growth of 1, 2, 3

Co-operative Movement and the World War II 33, 34

Co-operative Movement—Structure & Personnel 171

Co-operative Movement—Economic activities relation to 173, 174, 175, 176, 177

Co-operative Movement—Different phases of 218

Co-operative Movement: Progress of during post partition & post Independence period 287, 288, 289, 290, 291, 292

Co-operative Movement—Operation & Supervision of 172, 173

Co-operative Credit requisites of a good system of 117, 118, 119, 120, 121

Co-operative Credit agricole De Egypt 281

Co-operative Societies—Different types of 218

Crop Loan Evaluation Committee—Recommendations of 726—736

Co-operative Planning Committee 41
Co-operative Training and Education 65
Co-operative Thought Recent Trends of 48, 49, 50, 51
Curzon Lord 6

D

Daga Shri Kasturchand 386
Debt Relief Measures 4, 5
Debt Relief Measures—Miscellaneous 98, 99
Debt Conciliation Acts in Provinces 92, 93
Debts—Doubtful and bad 255, 256, 257
Debt Legislation—Limitations of & effect on credit machinery 99, 100
Demand for farm products inelasticity of 110, 111
Denzil Ibbetson Sir, 6
Development of facilities for training personnel 179
Development of Plan Co-ordination 272, 273, 274
Departmental Staff Provision for 63
Departmental Staff—Provision for Supervisory 63
Departmental Staff—Provision for Audit 63
Desika Chari Sir V. C. 385
Dupernex Mr. 6

E

Economic Depression of 1930's 25, 26, 27
Economic Programme Committee of the Indian National Congress 41, 73
Economic Programme Committee of the Indian National Congress—Recommendations of 41, 42
Ewbank Mr. 10
Exchange Banks 136

F

Farm Products—Difficulty in grading 111
Farm Products—Cost of raising 112
Famine Funds 182
First Five Year Plan—Co-operation in 44, 45, 46, 47, 48
Fluid Resources—Standards of to be mentioned by C.F.As. 336, 337
Fluid Resources—Issues raised by States:— 337, 338, 339, 340
Fragmentation—What is 563
Fragmentation—Disadvantages of 563, 564, 565
Fragmentation—Causes of:— 566, 567
Fragmentation—Remedial measures for:— 567, 568

G

Gadgil Prof. D. R. 37, 469
Gadgil Committee 39, 40, 42, 129, 134, 181, 242, 285, 334
Gokhale Institute of Politics & Economics Poona 37
Gorwala, A.D., Mr. I.C.S. 48
Grain Banks 293
Grain Banks—Progress of in the Indian Union 303

H

Hindoo Philosophy of Brahma Vishnu & Shiva 161

I

Indian Co-operative Congress 187

Indigenous Bankers and Rural Credit 135
Indigenous Bankers & Money-lenders 136, 137, 138, 139
Imperial Bank of India 48, 136
Interest Rates chargeable in various Provinces 85
Indian Famine Commission 6
Integrated Scheme of Rural Credit 164, 165, 166, 167, 268
Integrated Scheme of Rural Credit-Creation of funds under 167, 168, 169, 170, 171
Integrated Scheme of Agricultural Finance 435
Integrated Scheme of Agricultural Finance-General Observations on 436, 437
Integrated Scheme of Agricultural Credit to creditworthy borrowers in Bombay 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479
Integrated Scheme of Co-operative Development—Main features of 753, 754

J

Joint Farming 582
Joint Farming Society & Collective Farming Society—Points of distinction of:— 585, 586
Joint Farming Societies—Working of 586, 587, 588, 589, 590, 591
Joint Farming Societies—Draft Agreement to be signed by a member of 653
Joint Farming Societies—Rules regarding valuation of lands in 654

K

King Mr. I.C.S. 22

L

Land Improvement Societies 637, 638
Land Mortgage Banks (Co-operative) 60, 480
Land Mortgage Banks—Central & Primary 151, 152
Land Mortgage Banks Act Madras 506
Lallubhai Samaldas Sir 384,388
Land Mortgage Banks Structure of:— 482, 483, 484, 485, 558
Land Mortgage Banks—Essentials of success of 485, 486
Land Mortgage Banking in Madras 487, 488
Land Mortgage Banks (Primary), Madras 488, 489
Land Mortgage Banks—Procedure for preparing loan applications and its transmission 490, 491, 492
Land Mortgage Banks—Valuation of lands in:— 493, 494, 495
Land Mortgage Banks—Repaying capacity of a borrower in:— 496
Land Mortgage Banks Primary (Madras)—net income of borrower of 496, 497
Land Mortgage Banks Primary (Madras)—financial position of:— 502
Land Mortgage Banks Primary (Madras)—owned capital of 502, 503
Land Mortgage Banks Primary (Madras)—deposits in:— 503
Land Mortgage Banks Primary (Madras)—Loan operations of:— 503

Land Mortgage Banks Primary (Madras)—
Rate of interest on loans in; 503
Land Mortgage Banks Primary (Madras)—
Objects of Loans issued by:— 504, 505
Land Mortgage Banks Primary (Madras)—
Repayment of loans made by:— 505
Land Mortgage Banks Primary (Madras)—
The need for special powers of recovery of loans of:— 506
Land Mortgage Bank (Central) Madras 506, 507
Land Mortgage Bank (Central) Madras—
Management of 507, 508
Land Mortgage Bank (Central) Madras—
Loan transactions of; 508, 509
Land Mortgage Bank (Central) Madras—
Lending rates of:— 509
Land Mortgage Bank (Central) Madras—
Borrowings of:— 510
Land Mortgage Bank (Central) Madras—
Period of Debentures issued by:— 511
Land Mortgage Bank (Central) Madras—
Marketability of Debentures of 511, 512
Land Mortgage Bank (Central) Madras—
Method of retirement of debentures issued by 513, 514, 515
Land Mortgage Bank (Central) Madras—
causes of success of 516
Land Mortgage Bank (Central) Madras—
Loans issed by—delay in:— 516, 517, 518, 519 520, 521
Land Mortgage Banks (Central) Madras—
State Aid to:— 521, 522, 523
Land Mortgage Banks (Central) Madras—
effect of war on:— 523
Land Mortgage Banks Central Statistics relating to:— 524, 525
Land Mortgage Banks (Primary) Bombay 526
Land Mortgage Banks (Primary) Bombay—
Membership of:— 526
Land Mortgage Banks (Primary) Bombay—
Objects of 526, 527
Land Mortgage Banks (Primary) Bombay—
Borrowings of 527
Land Mortgage Banks (Central) Bombay—
Board of Directors of:— 527, 528
Land Mortgage Banks (Central) Bombay— 528
Loan operations of 529
Land Mortgage Banks (Central) Bombay—
Operations of:— 534, 535
Land Mortgage Banks—(Central) Bombay—
Difficulties experienced by in Bombay State:— 545
Land Mortgage Banking in Other States— 545
Andhra State 546, 547
Mysore State 547, 548
Land Mortgage Banking—
Orissa State 548, 549
Travancore-Cochin 549
Saurashtra 549, 550
Hyderabad 550, 551

Land Mortgage Banking—
Statistics relating to 551
Land Mortgage Banks & Impact of Land Reforms on:— 551, 552
Land Mortgage Banking—
State assistance to:— 552
Land Mortgage Banking—
Problems of—
(i) Elimination of delays 553
(ii) Loans on on anticipated produce 553
(iii) Orientation of Loan Policy 554
(iv) Raising of Funds 555
(v) Legal and Technical 556, 557
Land Mortgage Banking & its Co-ordination with short-term & medium—term credit 560, 561, 562
Land Mortgage Banks—
Recommendations of Conference on Marketing & Co-operation regarding 559, 560, 561, 562
Land Mortgage Banking—
(Co-operative) beginning of in India 486, 487
Larger Context 185, 186
Large-sized credit societies 57
Large-sized credit societies-staffs for 58
Large-sized credit societies— at Alamuru 204, 205, 206, 207, 208, 209, 210, 211
Large-sized society 194
Large-sized society—
Activities of:— 194
Large-sized society—
Management of:— 194
Large-sized society—
Distribution of profits of 195
Large-sized society—
Secretary of 195
Large-sized society—
Membership of 202
Large-sized society—
State participation in 202
Large-sized society—
Loan operations of 203
Large-sized society—
Godowns maintained by 203
Large-sized societies formation of in Pilot areas 212, 213
Large sized Primary Multipurpose Societies 213,214
Large-sized Primary Multipurpose Societies—
finally approved statement showing 265, 266
Large-sized societies— in Madras 266, 267, 268, 269, 270, 271
Lift Irrigation Societies Bombay State 628
Lift Irrigation Societies Bombay State 628
Lift Irrigation Societies—
Government Assistance to— 629, 634, 635
Lift Irrigation Societies—
Preliminary investigation regarding:— 629, 630
Lift Irrigation Societies Practicability of the scheme of:— 630
Lift Irrigation Societies—
Preliminary steps necessary for before registration:— 631, 632, 633
Lift Irrigation Societies —Regulations regarding distribution of water in:— 636, 637
Lift Irrigation Scheme
Form R 656, 655
Form A 657, 658
Form A 657, 658, 659
Schedule I 660
Schedule II 661

Lift Irrigation Scheme
Schedule III 662, 663
Form B 664, 665
Form C 668
Lift Irrigation Societies—Statement of Income & Expenditure of 669, 670
Law Committee appointed by the Government of India 754
Law Committee—Provisions regarding definitions suggested by 755
—Do—registration of societies 755, 756
—Do—Rights & Duties of members 756, 757
—Do—Management of societies 757, 758
—Do—Privileges of societies 758, 759
—Do—Provisions regarding State Aid to co-operatives framed by 760, 761
Law Committee—Provisions regarding properties and funds of society 761
—Do—Audit Inspection & Surcharge 761, 762
—Do—Settlement of Disputes 763
—Do—Land Mortgage Banks 764, 765
—Do—Execution of Awards 766, 767
—Do—Provisions in respect of appeals, revision and review 768, 769, 770
—Do—Offences and Penalties 770, 771
—Do—Miscellaneous Provisions 771, 772
Law Committee—Rule making power and matters in respect of which rules can be made 772, 773
Important provisions in Model Rules 774-778
Long-term Agricultural Credit 144, 480
Long-term Agricultural Credit—need for 481, 480
Long-term Agricultural Credit—Why co-operative agency suitable for 482
Loan offices of Bengal 144

M

Maclagan Sir Edward 6, 10
Maclagan Committee 11, 15, 19, 211, 223, 224, 227, 229, 230, 231, 233, 234, 237, 238, 239, 240, 241, 243, 244, 246, 247, 248, 250, 262, 305, 306, 309, 313, 382
Maclagan Committee—Recommendations of regarding:—
(1) Primary societies 11
(2) Non-credit societies 11
(3) Unions 11
(4) Central Financing Agencies 12
(5) Provincial Co-operative Banks 12, 13
(6) Miscellaneous 13
Maclagan Committee—Effects of Recommendations of 13, 14

Maclagan Committee—
Suggestions of regarding Primary societies 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 246, 247, 248, 250, 262, 313.

Maclagan Committee—
Recommendation of regarding CFA's 309, 310, 382, 383, 313

Maclagan Committee—
Recommendations of regarding State Co-operative Banks:— 383, 383, 384

Madras High Court 143

Madras Legislation 144

Madras Committee on Co-operation 253, 254, 261

Madras Agricultural Debtors' Relief Act 331

Marketing Boards—
Establishment of 677, 678

Marketing Boards—
for milk 645

Marketing Boards—
milk establishment of 645, 646

Marketing Co-operative
How it works:— 686

Marketing Co-operative—
origin of:— 686

Marketing Co-operative—
need for modest beginnings of:— 687

Marketing Co-operative—
need for registration under the Law:— 688

Marketing Co-operative—
area of operation of:— 688

Marketing Co-operative
Membership of:— 688, 689

Marketing Co-operative
Objects of:— 689

Marketing Co-operative
Capital Structure and Capital Requirements of:— 689, 690, 691, 692

Marketing Co-operative—
Functions of:— 693

Marketing Co-operative—
Methods of handling followed by:— 693, 694, 695, 696, 697

Marketing Co-operative
Processing undertaken by:— 697, 698

Marketing Co-operative
Methods of sale followed by:— 699

Marketing Co-operative
Advances against produce made by:— 699

Marketing Co-operative—
Exports and Imports—
Inter-State business of:— 699, 700

Marketing Co-operative—
Problems of Staff faced by:— 700

Marketing Co-operative—
Forms of assistance required by:— 700, 701

Marketing Co-operative—
Records and Internal check in:— 702, 703, 704

Marketing Co-operative—
Conclusions—Doe's & Don'ts:— 704, 705, 706

Marketing Co-operatives—
Indian Union:— 706, 707, 708, 709
Marketing Co-operatives and Inter-State trade 709, 710
Marketing Co-operatives—
State assistance to:— 710
Marketing Co-operatives—
Progress of in:—
(1) Uttar Pradesh 710, 711, 712
(2) Madras 712, 713, 714
(3) Andhra 714, 715
(4) Madhya Pradesh 715, 716
(5) Bihar & Orissa 717
(6) Orissa & Punjab 717, 718
(7) Hyderabad 719
(8) Himachal Pradesh 720
(9) Pepsu 720
(10) Mysore 720, 721
Marketing Co-operatives—
Statistics relating to 721, 722
Mehta Shri V. L. 318
Milk Supply Unions— 643, 644,
Statewise Review of 648, 649, 650, 651, 652
Milk Supply Unions—
Recommendations of Co-operative Planning Committee regarding 645
Ministry of Food & Agriculture 170
Milk Marketing Boards 645
Money Lenders' Act
Common provisions of:— 88, 89
Money Lenders—
classification of:— 126, 127
Money Lenders—
Rates of Interest charged by:— 127, 128, 129
Money Lenders' finance— 131,
objectionable features of 131, 132
Multipurpose Societies 150
Multipurpose Societies— 271,
formation of:— 272
Multipurpose Societies—
in Mysore:— 274
Multipurpose Societies—
in West Bengal:— 276, 277
Multipurpose Societies—
in Bombay:— 278
Multipurpose Societies—
in Madras:— 278
Multipurpose Societies—
Progress of in Indian Union:— 279, 280
Moratorium Laws 90
Mortgaged Lands—
Revaluation of 500
Mortgaged Lands—
Points to be noted regarding 500, 501
Mutual Help Schemes—
Chit Funds 141
Chit Funds-Working of 142

N

Nanavati Sir Manilal 318
Nanavati Committee 40, 285
Narayanswami Dr. Naidu B. V. 141, 143
National Agricultural Credit (Long-term operations) Fund 51, 59, 167, 169
National Agricultural Credit (Stabilization) Fund 51, 167, 169
National Extension Service 64, 100, 184
National Extension Service Blocks 64
Nicholson Sir Frederick 6
Nidhis 140
Nidhis-Working of 142, 143
Nidhis & Chit Funds Act 144
National Co-operative Development Fund 51, 168

National Warehousing & Development Fund 51, 168
National Agricultural Credit (Relief & Guarantee) Fund 51, 168, 170
National Co-operative Warehousing Development Board 51, 166 174, 175
National Marketing Boards 677
National Marketing Boards-Establishment of:— 678

O

Overdue Loans 242
Overdues Frozen 255

P

Panjabi Shri K. L., I.C.S. 526
Pantulu Sir Ramdas 331
Pilot Scheme of Integrated Credit & Marketing 187
Pilot Projects 55
Pilot Projects & need for experimentation 188, 189, 190
Pilot Scheme in Andhra 198, 199, 200, 201, 202, 203
Pilot Scheme in Bombay 211, 212, 213, 214, 215, 216, 217
Pilot Scheme in U.P. 191, 192, 193, 194, 195, 196, 197, 198
Primary Marketing Society Nauranga 195
Primary Marketing Society Nauranga—Membership of:— 196
Primary Milk Supply Societies 642, 643
Primary Marketing Society, Nauranga—Capital & borrowings of 196
Primary Marketing Society, Nauranga—Activities of:— 197
Primary Agricultural Credit Societies 148, 219
Primary Agricultural Credit Societies—Conditions necessary to make co-operative 223
Primary Agricultural Credit Societies—Growth of between 1929-30 249, 250, 251, 252, 253
Primary Agricultural Credit Societies—Statistics relating to 1945-46 261
Primary Agricultural Credit Societies—Distribution on basis of liability 263, 264, 265
Primary Agricultural Credit Societies—Divergence of opinion regarding area of operation 263, 264
Primary Agricultural Credit Societies—Non-credit activities of 261
Primary Marketing Co-operatives 63
Primary Land Mortgage Banks 157
Processing Societies—Organization of— 217
Processing Societies 63, 217
Processing Societies at work 723, 724
Progress of Co-operative Movement 287, 288, 289, 290, 291, 292
Provincial Committees of Enquiry appointment of:— 19
Townsend Committee, Madras 19, 20

Vijaya Raghava Chariyar Committee, Madras 20
Gopalswamy Iengar Committee Madras 21
King Committee, C.P. & Berar 21, 22
Oakden Committee, U.P. 23
Calvert Committee, Burma 24
Other Committee of Enquiry 28

Provincial Banking Enquiry Committee 102, 128

Provincial Co-operative Banks 382

Provincial Co-operative Banks-need for in each major State 382

Provincial Co-operative Banks—Recommendations of Maclagan Committee in regard to:— 383, 384

Provincial Co-operative Banks—Origin, growth & development of 384, 385, 386, 387, 388

Provincial Co-operative Banks—Statistics relating to:— 389

Provincial Co-operative Banks—Period of expansion of:— 389, 390

Provincial Co-operative Banks—Position of on the eve of Depression 391, 392

Provincial Co-operative Banks—During Depression 393, 394, 395

Provincial Co-operative Banks—Position of during 1928-29, & 1938-39 395, 396

Provincial Co-operative Banks—During War-time:— 396, 397

Provincial Co-operative Banks—role of:— 33

Provincial Co-operative Banks—Position of during post:— 397
Independence period:—398,399

Provincial Co-operative Banks—Statewise Review of 400
(i) Madras 401
(ii) Punjab & Bengal 402
(iii) U.P. & Bihar 403
(iv) Assam & Orissa 403
(v) Coorg, Madhya-Pradesh, Ajmer, Merwara, Mysore, Hyderabad 404, 405

Provincial Co-operative Banks—Reorganization of in Assam, Ajmer & Bihar:— 406, 407
—Do—in Bihar, Bhopal, Hyderabad, Himachal Pradesh, Madhya Bharat, Mysore:— 408, 409
—Do—in Mysore, Orissa, Punjab, Pepsu, Rajasthan, Saurashtra, Travancore-Cochin, U.P.:— 410, 411
—Do—in U.P., Vindhya Pradesh, West Bengal:— 412, 413

Provincial Co-operative Banks—Comparative position of—1952 & 1954 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423

Q

—

R

Raiffeisan Model—
Advantages of 227
Raiffeisan Model—
Area of operation of 227
Raiffeisan Model—
Size of societies formed on 227, 228
Raiffeisan Model—
Selection of membership in:— 229
Raiffeisan Model—
form of liability of:— 230, 231, 232
Raiffeisan Model—
Composition of capital of:— 232, 233, 234, 235, 236
Raiffeisan Model—
Owned capital of:— 236
Raiffeisan Model—
Loan advanced by— 237, 238
Raiffeisan Model—
Objects of Loans to members of:— 238, 239
Raiffeisan Model—
Periods of Loans in:— 238, 239
Raiffeisan Model—
Sureties to loans in:— 239, 240
Raiffeisan Model—
Form of security for loans in:— 240, 241
Raiffeisan Model—
Rate of interest charged on loans made by:— 241, 242
Raiffeisan Model of Societies 242
Raiffeisan Model—
overdues in societies formed on 242, 243
Raiffeisan Model—
Reserve Fund of:— 243, 244
Raiffeisan Model—
Management of:— 245
Raiffeisan Model—
Dissolution and liquidation of:— 246
Raiffeisan Model—
Audit & Supervision of:— 246, 247, 248
Raiffeisan Model—
Registration of:— 249
Raiffeisan Model Societies—
Growth of agricultural societies 1929-30 249, 250, 251
Raiffeisan Model Societies—
Position of loans in 1936 252
Raiffeisan Model—
Position of loans outstanding 1938-39 252, 253
Rectification & Rehabilitation of societies—
Madras 254, 255, 256
Rectification & Rehabilitation of societies—
Assam 257, 258
Bihar & Bengal 258, 259
C.P. & Berar
Punjab & Orissa 259, 260
Reorganisation & Rehabilitation during post Independence period—
Progress of 280, 281, 282,
—do— West Bengal 282,283
—do— East Punjab 283
—do— Assam, Bihar & C.P. & Berar 283, 284
—do— Bombay & Orissa 285, 286
—do— Madras 286, 287
Reorganisation of Co-operative Movement 343, 344, 345, 346, 347, 348
Reorganization of C.F.As. 52, 53
Reorganization of Co-operative Credit 56

(1) Reserve Bank of India 53, 54, 55, 56, 60, 61, 62, 65, 135, 139, 168, 183, 262, 263, 264, 265, 266, 272, 283, 319, 320, 321, 322, 323, 324, 325, 328, 331, 332, 335, 337, 340, 341, 342, 343, 369, 406, 414, 415, 416, 421, 422, 429, 430, 440, 469, 512, 514, 556, 557, 737, 738, 739, 741, 743, 744, 745, 746, 747, 748, 750

(2) Reserve Bank of India Act—Relevant Provisions in for supply of credit to State Co-operative Banks:— 454, 455, 456, 457, 458, 459

(3) Reserve Bank of India —Role of in reorganized credit 52

Reserve Bank of India —Role of in Primary societies 30, 31

Reserve Bank of India Role—Reorganization of Central Banks 32, 33

(4) Reserve Bank of India —Role of in agricultural finance in India 737, 738

Reserve Bank of India—Short-term, medium-term loans granted by:— 739, 740, 741, 742

Reserve Bank of India—Procedural Reforms introduced by:— 743, 744

Reserve Bank of India—Remittance Transfer facilities given by:— 745, 746

Reserve Bank of India—Inclusion of Part B & C in R.B. Act:— 746

Reserve Bank of India—Long-term loans given by 747

Reserve Bank of India—Regarding-appointment of Rural Credit Survey Committee by:— 748

Reserve Bank of India—Standing Advisory Committee-appointment by:— 748, 749

Reserve Bank of India & Co-operative Finance 330, 331

Relief & Guarantee Fund 64

Regulation of Money Lenders' Accounts—Provincial Legislations for 85, 86

Regulated Markets 216, 217

Rural Banking Enquiry Committee 133

Rural Credit—Why professional money lenders dominate:— 124, 125, 126

Rural Credit Survey Committee 54, 55, 60, 62, 65, 186, 187, 189, 198, 264, 279, 317, 422,

423, 512, 748, 753, 754
Rural Credit Survey Committee- Miscellaneous Recommendations of 179, 180, 181, 182, 183, 184, 185, 189
Rural Credit Survey Committee-General Recommendations of 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178
Rural Credit Survey Report 58, 61, 63, 64, 81, 102, 103, 124, 128, 133, 141, 145, 147, 150, 153, 154, 156, 158, 164, 198, 317, 369, 416, 561, 749
Rural Indebtedness measures for relief of:— 76
Rural Indebtedness—causes of:— 76, 77, 78, 79
Rural Indebtedness—Estimates of:— 179, 180
Rural Indebtedness—Trends after 1930 80, 81
Rural Indebtedness—Remedial measures adopted for removal of 82, 83, 84, 85
Rural Industries—finance for 183

S

Salvage of Dry animals 647
Saraiya Committee 41, 288
Saraiya Shri R. G. 41
Second Five Year Plan 187, 188
Second Five Year Plan—Co-operation in 65, 66
Second Five Year Plan—Targets fixed for Credit, Marketing & Processing activities 67
Second Five Year Plan—Warehousing and Storage 67
Scheme of Reorganisation 27, 28, 29, 30
Scheme of reorganization of Primary Agricultural Societies 30, 31
Scheme of reorganisation of Central Banks 31, 32
Scheme of reorganization of Provincial Banks 33
Scheme of reorganized Credit & Marketing 52
Scheme of Reorganized Credit & Marketing—Role of Reserve Bank in 52
Scheme of Reorganized Credit & Marketing—Provision of trained personnel for 53
Scaling down of debts 95, 96, 97, 98
Sivaswami Mr. K. G. 100
Standing Advisory Committee of Reserve Bank of India:— 55, 56, 148, 340
State Assistance for finance of agriculture:— 140
State Bank of India 145, 178, 192, 340, 423
State Co-operative Banks:— 59, 147, 340, 341, 382
State Co-operative Banks—Operations of:— 460, 461, 462, 463, 464, 465,

State Co-operative Marketing Society 62
State Co-operative Development Fund 64
State Co-operative Technical Service 172
Stabilization of Agricultural Prices 181
State Ministers' Conference 187, 190
Statistics of Sales & leases of maintenance of records of 497, 498, 499
—do— Bombay 529, 530
State Farming 624
State Partnership and and its implications:— 53, 54
State Partnership—State Intervention—Limitations of:— 167
State Partnership—Scheme of:— 187
State Partnership—Limitations of:— 167
State Warehousing Corporation:— 176, 177, 62
Socialistic Pattern of Society & Co-operation 70, 71, 72, 73, 74, 75
Sovereign Democratic Republic 44
Sub-division of Land:—Merits and demerits 563
Sub-division of Land—causes of— 566
Subordinate Service Co-operative Department 172

T

Tagai Loans—Grant of 100
Tentative Targets in the Second Five Year Plan 55, 67
Tenancy Legislation 180
Townsend Mr. 19
Townsend Committee, Madras 15
Transport Charges 182, 183
Thackersey Sir Vithaldas 384

U

U.P. Co-operative Bank Ltd. 191, 192, 193, 196
U.P. Scheme of multi-purpose societies 277

V

Valuation of Lands 529, 530, 531
Valuation of Lands—Valuation of repaying capacity:— 532, 533, 534
Verification of lands by Departmental Staff 529, 530, 531
Village Roads 182

W

Warehouses for Marketing Societies 62
World War II 494, 680
World War II—Effect of on agricultural credit and marketing co-operatives:— 34, 35
World War II—effect of on Central Financing Agencies:— 36, 37
World War II—effect of on Mortgage Banks:— 523

X

—Nil—

Y

—Nil—

Z

Zamindari areas 144, 521

ONS

THE CO-OPERATION
BROAD

Prof. K. … F.R. ECON. S. (Lond.).
In… V. L. MEHTA
Vol. I : Revised Ed… , Vol. II, (Revised Edn. in press)
Vol. III : [Price Rs. 22.50

CO-OPER…VE BANKING IN INDIA
By
G. M. LAUD
Introduction by V. L. MEHTA
[Price Rs. 27.50

AGRICULTURAL FINANCE IN INDIA
(with special reference to Co-operative Movement)
By
D. K. RANGNEKAR, M.com.,
Foreword by Prof. D. R. GADGIL. [Price Rs. 15

AGRICULTURAL MARKETING IN INDIA
By
Prof. K. R. KULKARNI, M.A., F.R. ECON. S. (Lond.)
Vol. I : (Third revised edition in press.)
Price : Vol. II : Rs. 32.50

PROBLEMS OF MONETARY POLICY
IN
A DEVELOPING ECONOMY
By
Dr. D. R. KHATKHATE, M.A., Ph.D.
Foreword by Prof. C. N. VAKIL [Price Rs. 10

SOCIETIES REGISTRATION ACT
(ACT XXI of 1860)
Explanatory Notes and Commentaries on the Act
with All State Amendments upto 1st August 1956
and several useful Appendices.
By
S. B. KHER, B.A., LL.B., Bar-at-Law,
Advocate, Supreme Court of India
Foreword by Sir JAMSHEDJI B. KANGA [Price Rs. 8.50

THE CO-OPERATORS' BOOK DEPOT
9, Bakehouse Lane, Fort, BOMBAY No. 1